

CITY OF READING
FINANCIAL AND COMPLIANCE
AUDIT REPORT
Year Ended December 31, 2006

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Reading's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2007, on our consideration of the City of Reading's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management's Discussion and Analysis, Budgetary Comparison Schedule for the General Fund, and the Schedules of Funding Progress and Employer Contributions are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reading's basic financial statements. The schedules on pages 55 through 66 are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Herbein + Company, Inc.

Reading, Pennsylvania
July 2, 2007



FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

ACCOUNTING & FISCAL MANAGEMENT DIVISION

ROOM 2-51

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The City of Reading, Pennsylvania Management's Discussion and Analysis For the Year Ended December 31, 2006

The following discussion and analysis of the City of Reading's financial outcome provides an overview of the fiscal year ending December 31, 2006. The Management Discussion and Analysis is meant to provide the citizens, taxpayers, customers, vendors, creditors, investors and the legislators with a better understanding of the City's fiscal health.

The 2006 Fiscal Year End Audit is structured with the independent auditor's report appearing at the beginning of this document, followed by the Management's Discussion and Analysis, the Basic Financial Statements, Combining and Individual Fund Financial Statement and Schedules, Required Supplementary Information Schedule of Expenditures of Federal Awards, Report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards, Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133, Schedule of Findings and Questioned costs, Status of Prior Year Findings and Recommendations, and the Corrective Action Plan.

The Government-wide Financial Statements and Fund Financial Statements have a different measurement focus and basis of accounting. The fund financial statements are used to report additional detailed information about the primary government not found in the government-wide statements and focus on major funds of the primary government.

Government-Wide Statements:

Government-wide Statements include governmental activities of the primary government, business-type activities of the primary government and non-fiduciary component units. They do not include any fiduciary activities or fiduciary-type component units.



The report focuses on changes in net assets. Government-wide statements also recognize transactions and events when they occur, independent of the timing of cash flows.

For business-type transactions, there are no changes from fund statements. For governmental activities, many changes are captured through the government-wide statements, but are not required to be changed on the general ledger. Capital assets, including infrastructure have been added and deferred items are also captured on the reports. Depreciation is reported through the statements for governmental activities to capture the expenses versus the expenditures.

The columns for the government-wide statements are set up to capture governmental activities, business-type activities, total for primary government and the discretely presented component unit. For the City of Reading, the governmental activities are general government, public safety, public works, culture and recreation, community development and other expenses including interest payments on long-term debt. The business-type activities are water, sewer, and recycling/trash provided by the City on a fee for service basis. The component unit is the Reading Parking Authority.

Fund Financial Statements:

The fund financial statements provide a more detailed outlook of the City's funds. Any major funds are detailed in the fund financial statements. For the City, the major Governmental funds are the General Fund, Community Development, Redevelopment Authority, Capital Projects, and Debt Service. All other funds are combined in the Non-Major Funds column.

The proprietary funds are broken down into Water Fund, Sewer Fund, Internal Service Funds and Other Enterprise Funds (Recycling/Trash). The fund financial statements consist of the balance sheets and income statements for all of the above listed funds. The Fiduciary Funds are the Police Pension Fund, the Paid Firemen's Pension Fund and the Officers' and Employees' Pension Fund.

Financial Highlights for FY 2007:

With the continued financial constraints that the City of Reading faces, there has to be commitment for better fiscal control over 2007's budget and budgets to follow. In 1999, the City authorized the Pennsylvania Economy League (PEL) to undertake an analysis of the present and prospective financial condition of the City with a view to recommending actions designed to help balance future budgets, avoid deficits, and improve operations. In the spring of 2006 the City contracted Management Partners to update the projections from the PEL report. Management Partners report indicated that the deficit would shrink to \$6.74 million in 2005. At the end of 2005 the City of Reading's accumulated deficit shrank by \$6,128,894 to \$1,091,574 which is \$5.81 million more than projected in Management Partners report. During 2006 the City continued to climb out of the red and bring itself into the black for the first time since 2002. 2006 general fund revenues exceeded expenditures by \$9,563,719 resulting in the creation of a general fund balance of \$8,472,145. This is a great accomplishment that everyone should be proud of. That said the City continues to face a very real structural deficit. For the 2007 the City had to rely on using a transfer from fund balance to balance its budget. For too long the City has depended heavily on one time unsustainable revenue sources to make ends meet. This practice has given us the feeling that things were O.K. while the structural imbalance continued to grow. Management Partners updated the PEL study and showed that the City's negative fiscal situation will continue to grow to an aggregate \$25 million by the year 2010 far less than the \$50 million dollar deficit projected by the original PEL report. However recent projections made by City Staff show that the cumulative deficit could reach more than \$50 million by 2012 if the City does not take appropriate action. During 2006 the City announced several steps in restructuring its financial outlook by undergoing cost containment and reduction activities, and initiating plans for asset shedding. Since then the City has implemented many of those steps. In 2006 the City issued a \$48 million dollar Pension Bond to fund its three pension funds. By issuing a Pension Bond the City anticipates saving more than \$1 million dollars annually over the next 20+ years. The City also completed a forward starting swap on its 2008 Sewer Bond generating an additional \$4.5 million in sources of funds. These transactions were the major factors in eliminating the City's cumulative deficit but it is imperative to remember that all of the transactions were on time shots in the arm not a long term solution.

The following tables compare FY 2005 and FY2006.

Statement of Net Assets:

The following table consists of the condensed Statement of Net Assets:

	2005	2005	2005	2005
	Governmental	Business-	Total	Component
	Activities	type	Primary	Unit
	Activities	Activities	Government	Unit
ASSETS				
Current	18,645,968	11,240,405	29,886,373	3,590,716
Capital and other Assets	67,167,869	89,752,775	156,920,644	29,580,751
Total Assets	85,813,837	100,993,180	186,807,017	33,171,467
Current Liabilities	12,705,395	11,366,557	24,071,952	3,405,879
Long-term Liabilities	53,792,021	47,032,086	100,824,107	25,905,468
Total Liabilities	66,497,416	58,398,643	124,896,059	29,311,347
Net assets:				
Invested in capital assets, net of related debt	-	30,263,131	30,263,131	-
Restricted	11,549,457	-	11,549,457	-
Unrestricted	7,766,964	12,331,406	20,098,370	3,860,120
Total Net Assets	19,316,421	42,594,537	61,910,958	3,860,120

The total net assets of all governmental activities for fiscal year end 2005 are \$19,316,421. This is not a reflection of General Fund fund balance. This can be found on the fund statements for comparison to prior years. The component unit listed above is the Reading Parking Authority.

	2006	2006	2006	2006
	Governmental	Business-	Total	Component
	Activities	type	Primary	Unit
	Activities	Activities	Government	Unit
ASSETS				
Current (restricted)	27,326,933	13,256,315	40,583,248	10,147,132
Capital and other Assets	119,911,827	82,022,877	201,934,704	32,330,645
Total Assets	147,238,760	95,279,192	242,517,952	42,477,777
Current Liabilities	18,212,035	9,445,008	27,657,043	4,064,677
Long-term Liabilities	107,161,988	41,068,389	148,230,377	32,317,740
Total Liabilities	125,374,023	50,513,397	175,887,420	36,382,417
Net assets:				
Invested in capital assets,				
net of related debt	-	43,431,274	43,431,274	-
Restricted	-	2,204,124	2,204,124	-
Unrestricted	21,864,737	(869,603)	20,995,134	6,059,360
Total Net Assets	21,864,737	44,765,795	66,630,532	6,059,360

Statement of Activities:

The following table consists of the condensed 2005 Statement of Revenues and Expenses:

	Governmental Activities	Business- Type Activities	Total	Component Unit
REVENUES				
Program Revenues:				
Charges for Services	23,759,919	32,776,345	56,536,264	6,368,348
Operating grants and contributions	23,192,877	180,247	23,373,124	-
Capital grants and contributions	-	-	-	-
TOTAL PROGRAM REVENUES	46,952,796	32,956,592	79,909,388	6,368,348
General Revenues:				
Property Taxes, levied for general purposes	14,821,997	-	14,821,997	-
Earned income, franchise, and other taxes	16,786,657	-	16,786,657	-
Investment earnings	1,742,597	232,290	1,974,887	379,983
Miscellaneous income	(427,974)	2,074,124	1,646,150	52,570
Transfers	8,699,048	(8,699,048)	-	-
TOTAL GENERAL REVENUES	41,622,325	(6,392,634)	35,229,691	432,553
Indirect Cost Allocation:				
Indirect cost	1,228,469	(1,228,469)	-	-
TOTAL INDIRECT REVENUES	1,228,469	(1,228,469)	-	-
Total Revenues	89,803,590	25,335,489	115,139,079	6,800,901

	Governmental Activities	Business- Type Activities	Total	Component Unit
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	8,467,811	-	8,467,811	-
Public safety				-
Police	24,212,269	-	24,212,269	-
Fire	10,481,087	-	10,481,087	-
EMS	2,941,024	-	2,941,024	-
Public works: other	6,017,610	-	6,017,610	-
Public works: highways and streets	2,541,017	-	2,541,017	-
Culture and recreation	828,622	-	828,622	-
Community Development	17,561,159	-	17,561,159	-
Other	688,522	-	688,522	-
Debt service - interest	2,075,651	-	2,075,651	-
TOTAL GOVERNMENTAL ACTIVITIES	75,814,772	-	75,814,772	-
Business-type activities				
Water	-	9,548,462	9,548,462	-
Sewer	-	13,262,367	13,262,367	-
Trash and Recycling	-	2,662,971	2,662,971	-
TOTAL BUSINESS-TYPE ACTIVITIES	-	25,473,800	25,473,800	-
Total Expenses-Primary Government	75,814,772	25,473,800	101,288,572	-
Component Unit:				
Reading Parking Authority				
Parking	-	-	-	5,008,191
CHANGE IN NET ASSETS	13,988,818	(138,311)	13,850,507	1,792,710
NET ASSETS-BEGINNING	5,327,603	42,732,848	48,060,120	2,067,410
NET ASSETS-ENDING	19,316,421	42,594,537	61,910,958	3,860,120

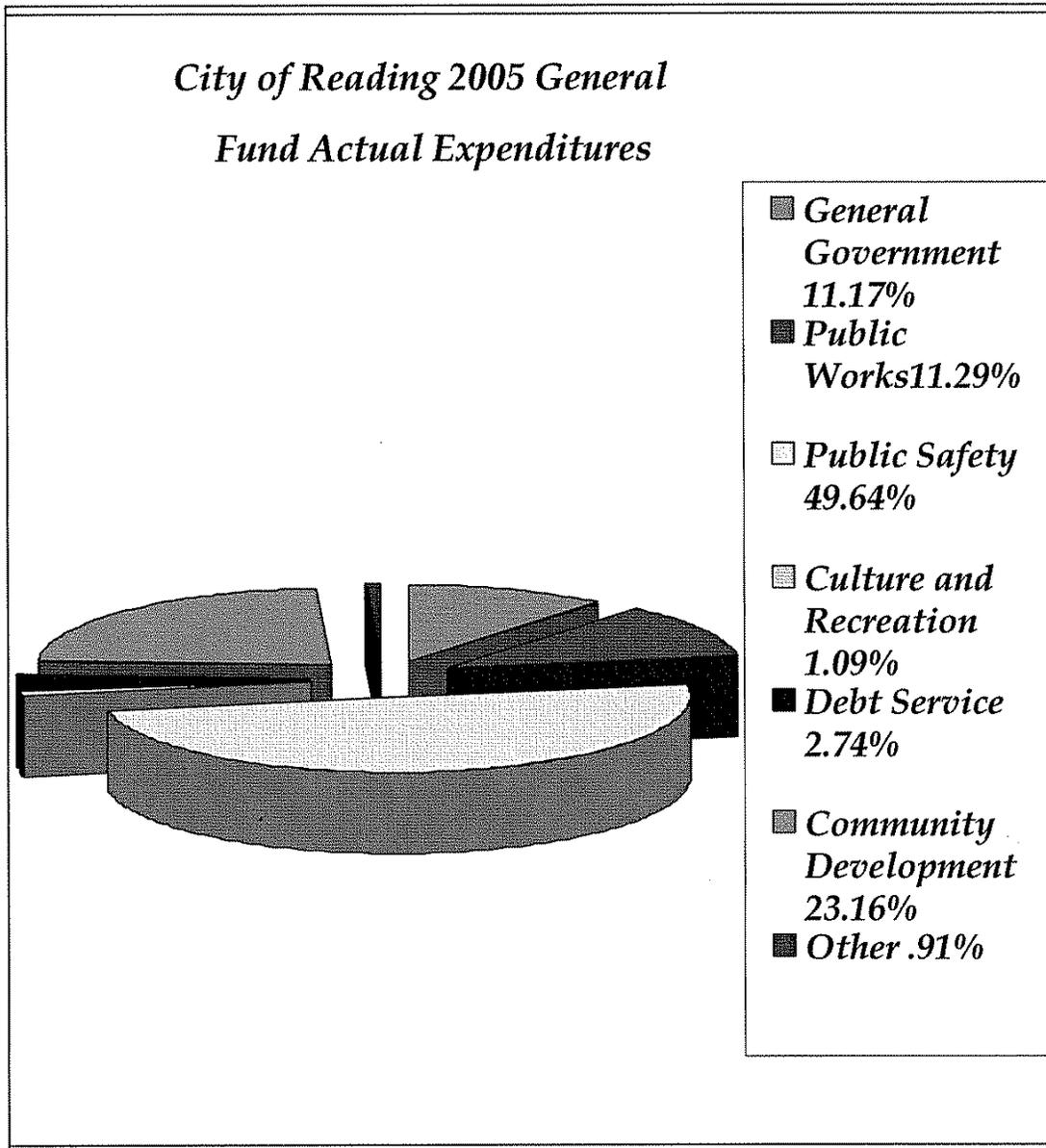
The following table consists of the condensed 2006 Statement of Revenues and Expenses:

	Governmental Activities	Business- Type Activities	Total	Component Unit
REVENUES				
Program Revenues:				
Charges for Services	17,093,753	36,765,709	53,859,462	7,270,588
Operating grants and contributions	19,726,298	361,823	20,088,121	-
Capital grants and contributions	-	-	-	-
TOTAL PROGRAM REVENUES	36,820,051	37,127,532	73,947,583	7,270,588
General Revenues:				
Property Taxes, levied for general purposes	14,900,497	-	14,900,497	-
Earned income, franchise, and other taxes	18,412,582	-	18,412,582	-
Investment earnings	1,847,844	320,360	2,168,204	399,665
Capital Contributions	-	960,464	960,464	-
Miscellaneous income	-	(81,933)	(81,933)	10,402
Transfers	7,804,337	(7,804,337)	-	-
TOTAL GENERAL REVENUES	42,965,260	(6,605,446)	36,359,814	410,067
Indirect Cost Allocation:				
Indirect cost	1,197,058	(1,197,058)	-	-
TOTAL INDIRECT REVENUES	1,197,058	(1,197,058)	-	-
Total Revenues	80,982,369	29,325,028	110,307,397	7,680,655

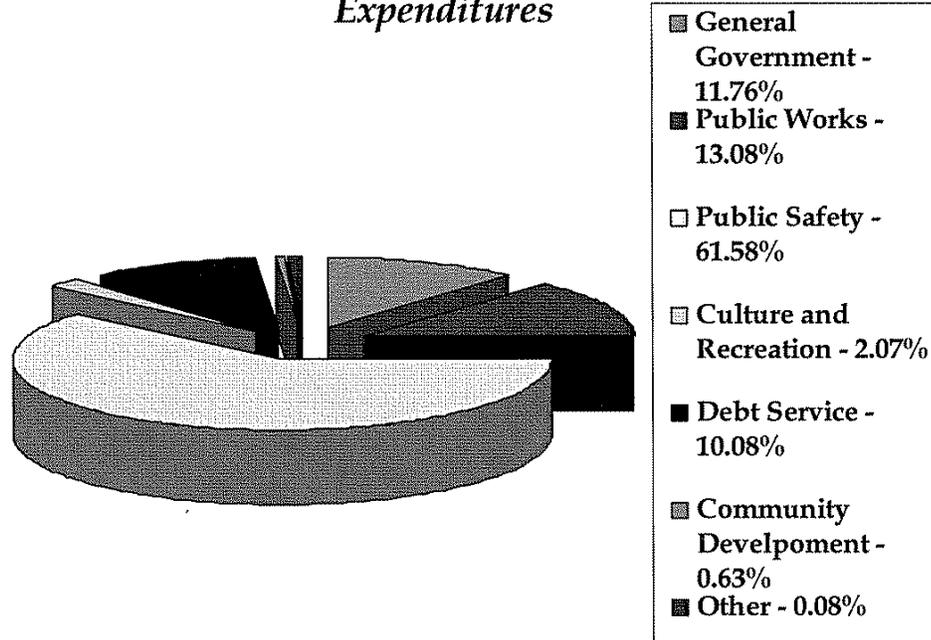
	Governmental Activities	Business- Type Activities	Total	Component Unit
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	8,402,230	-	8,402,230	-
Public safety				
Police	27,580,999	-	27,580,999	-
Fire	11,202,636	-	11,202,636	-
EMS	3,239,021	-	3,239,021	-
Public works: other	6,589,855	-	6,589,855	-
Public works: highways and streets	2,828,702	-	2,828,702	-
Culture and recreation	1,795,865	-	1,795,865	-
Community Development	14,121,261	-	14,121,261	-
Other	491,172	-	491,172	-
Debt service - interest	2,182,312	-	2,182,312	-
TOTAL GOVERNMENTAL ACTIVITIES	78,434,053	-	78,434,053	-
Business-type activities				
Water	-	10,836,658	10,836,658	-
Sewer	-	13,549,056	13,549,056	-
Trash and Recycling	-	2,768,056	2,768,056	-
TOTAL BUSINESS-TYPE ACTIVITIES	-	27,153,770	27,153,770	-
Total Expenses-Primary Government	78,434,053	27,153,770	105,587,823	-
Component Unit:				
Reading Parking Authority				
Parking	-	-	-	5,445,415
CHANGE IN NET ASSETS	2,548,316	2,171,258	4,719,574	2,235,240
NET ASSETS-BEGINNING	19,316,421	42,594,537	61,910,958	3,860,120
NET ASSETS-ENDING	21,864,737	44,765,795	66,630,532	6,095,360

General Fund Financial Highlights:

Expenditures:



***City of Reading 2006 General Fund Actual
Expenditures***

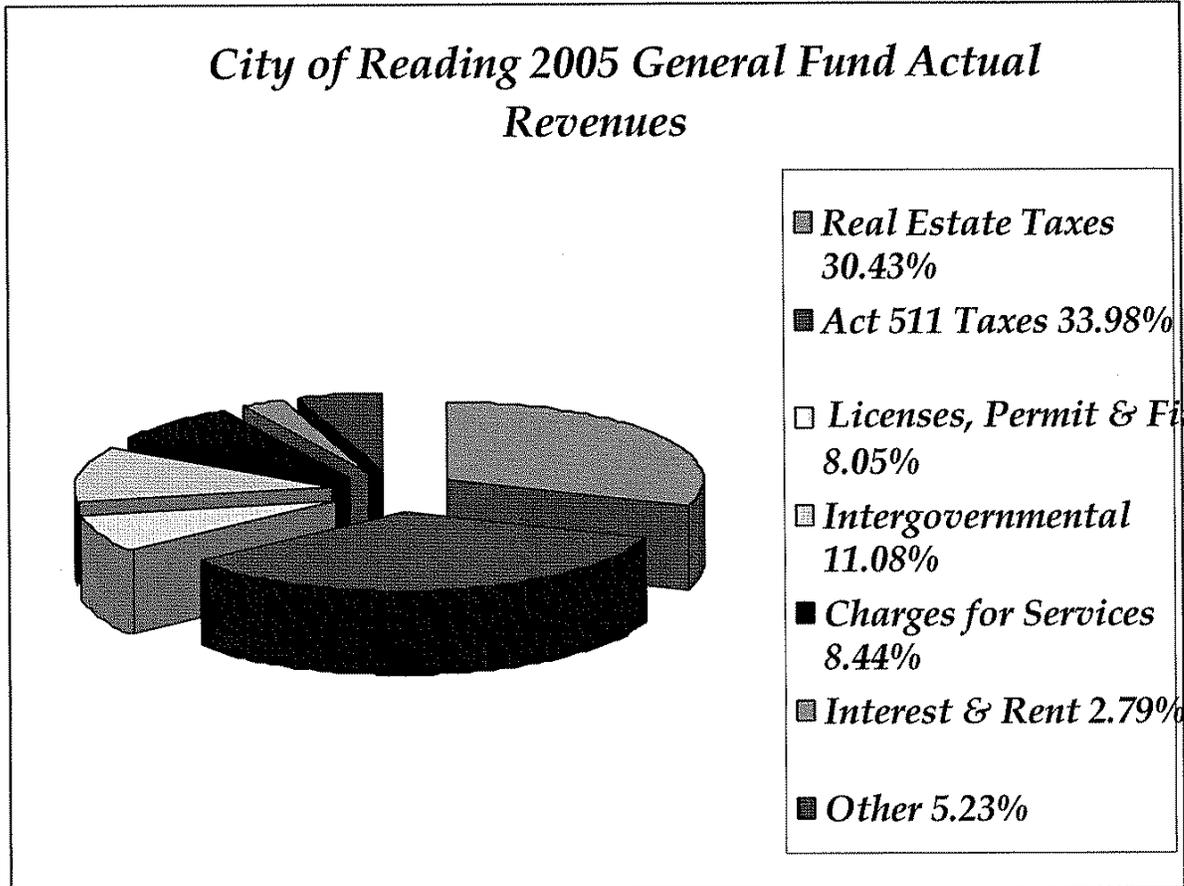


Total General Government which consists of the Office of the Mayor, City Council, City Auditor, Office of the Managing Director, City Clerk, Department of Finance, Department of Human Resources and the Department of Law. In 2005 General Government fiscal year numbers were \$107,807 under budget, in 2006 they were \$38,599 less than budget.

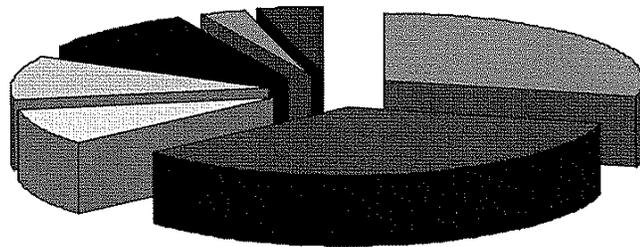
In 2006 Public Works was over budget by \$749,545 there were two main factors in Public Works going over budget. The first factor was the cost of oil. Oil prices for 2006 had increased more than anticipated and because of our inelasticity in demand for oil our expenditures increased significantly. The second factor was the flood that hit the City in the summer. The flood caused personnel and material expenditures to be higher than we could have expected.

In 2005, Public Safety overspent their budget by \$2,618,395 and in 2006 overspent by \$1,585,916. Public Safety consists of Police, Fire and EMS. Personnel expenses continue to be the major factor in budget overruns in Public Safety.

Revenues:



City of Reading 2006 General Fund Actual Revenues



- Real Estate Taxes - 28.77%
- Act 511 Taxes - 34.85%
- Licenses, permits and fines - 8.74%
- Intergovernmental - 10.38%
- Charges for services - 10.26%
- Interest and rent - 2.84%
- Other - 4.16%

The City has several sources of revenue. The largest single portion of the City of Reading's general fund budget comes from real estate taxes. Just to show the sheer volume of expenses, the Public Safety's actual expenditures for 2006 were \$37.81 million dollars, resulting in the actual real estate tax revenues of \$15.14 million being more than \$22 million dollars short of covering the expenses for Public Safety. The City of Reading's current millage rate is 10.9 mills or .0109 times the assessment value.

The other categories of revenue are Act 511 Taxes (Per Capita, Real Estate Transfer, Earned Income, Occupation Privilege, and Business Privilege Tax), Licenses, Permits and Fines, Intergovernmental, Charges for Services, Interest and Rent, Other, and Other Financing Sources. Act 511 Taxes are permitted by the state and set by local ordinances not to exceed the state level. The 2005 fiscal year end number for Act 511 Taxes was \$16.79 million; for 2006 the fiscal year end number for Act 511 Taxes was \$18.36 million. This increase in revenue from the 511 Taxes is due to the Real Estate Transfer coming in over budget due to the volume of real estate transaction that took place within the City in 2006. The City is at the maximum allowable level for the Act 511 Taxes with the exception of Earned Income Tax and Real Estate Transfer Tax which can be increased since the City is governed by a Home Rule Charter

Licenses, Permits and Fines are fees set by local ordinances and ended the year at \$4.61 million. Intergovernmental charges, which were \$5.47 million for FY 2006 are negotiated or donated contributions from other government entities (grants, coordinated services, etc.). Charges for Services are set by local ordinances and are based on the cost of the program or service divided by the number of transactions which occur for each program or service; this category ended the year at \$5.40 million. Interest and rent are competitive rates and contractual obligations from outside parties. The end of the year total was \$1.49 million. Other \$2.19 million come from such items as sales of property/equipment, direct cost reimbursement, indirect cost reimbursements, interfund transfers, etc.

Capital Assets and City Debt:

During 2006, the City of Reading completed an interest swaps generating \$4.5 million dollars in proceeds. The City also issued a Pension bond for \$48 million to fund its three pension funds. The City should save more than \$1 million dollars a year for the next 20+ years by funding the pensions today.

Economic Factors and 2006's Budgets and Rates:

The City of Reading maintained the earned income tax at 1.7% for fiscal year 2006 and the Real Estate Transfer tax. The City increased its property tax .5 mills to 10.9 mills. This increase will help sustain the growing costs of continuing all City services for fiscal year 2007.

Economic Development projects which began in the City of Reading in 2005 & 2006 continue to grow in 2007. The City recently broke ground on a twelve screen multiplex and plans to make more announcements in 2007. Efforts are being made to improve the value of the residential homes, while at the same time promoting the growth of new business.

Contacting the City's Finance Management:

The Management Discussion and Analysis is meant to provide the citizens, taxpayers, customers, vendors, creditors, investors and the legislators with a better understanding of the City's fiscal health. If you have any questions about this report or need additional financial information, please contact Ryan P. Hottenstein, Acting Finance Director at 610-655-6227 or ryan.hottenstein@readingpa.org or 815 Washington Street, Reading PA 19601. If you have any questions concerning the Reading Area Water Authority financial information, please contact Deputy Executive Director, Reading Area Water Authority, 815 Washington Street, Reading PA 19601. If you have any questions concerning the Reading Parking Authority, please contact Lawrence Lee at 610-655-6166 or 635 Franklin Street, Reading, PA. 19601.

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CITY OF READING
STATEMENT OF NET ASSETS

December 31, 2006

	Primary Government			Component Unit (Reading Parking Authority)
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 14,778,717	\$ (323,359)	\$ 14,455,358	\$ 4,845,285
Investments	3,233,006	198,718	3,431,724	-
Accounts receivable, net	3,099,218	4,884,467	7,983,685	178,710
Taxes receivable, net	2,475,716	-	2,475,716	-
Internal balances	705,705	(705,705)	-	-
Intergovernmental receivables	3,034,518	2,034,550	5,069,068	-
Inventory	-	572,840	572,840	-
Other current assets	-	273,069	273,069	37,048
Total current assets	<u>27,326,880</u>	<u>6,934,580</u>	<u>34,261,460</u>	<u>5,061,043</u>
Restricted assets				
Cash and investments	53	6,321,735	6,321,788	5,086,089
Other non-current assets				
Unamortized bond discount	-	1,098,996	1,098,996	-
Unamortized bond issue costs	1,704,845	442,771	2,147,616	716,962
Unamortized loan origination fee	-	-	-	193,274
Note receivable, noncurrent	33,718,724	-	33,718,724	-
Net pension asset	47,474,680	-	47,474,680	-
Deposit on equipment	-	-	-	22,310
Capital assets				
Land	280,960	2,074,359	2,355,319	2,359,086
Buildings, net of accumulated depreciation	16,260,818	24,332,664	40,593,482	20,847,719
Machinery and equipment, net of accumulated depreciation	7,283,360	3,893,836	11,177,196	299,100
Improvements, net of accumulated depreciation	9,176,860	46,250,589	55,427,449	78,537
Infrastructure, net of accumulated depreciation	2,725,033	-	2,725,033	-
Construction in progress	1,286,547	3,929,662	5,216,209	7,813,657
Total other non-current assets	<u>119,911,827</u>	<u>82,022,877</u>	<u>201,934,704</u>	<u>32,330,645</u>
TOTAL ASSETS	<u>\$ 147,238,760</u>	<u>\$ 95,279,192</u>	<u>\$ 242,517,952</u>	<u>\$ 42,477,777</u>

See accompanying notes.

	Primary Government			Component Unit (Reading Parking Authority)
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities				
Accounts payable	\$ 3,580,847	\$ 2,843,267	\$ 6,424,114	\$ 1,080,473
Benefits payable	83,239	-	83,239	20,554
Accrued interest	584,599	728	585,327	53,873
Deferred revenue	976,957	-	976,957	-
Interest rate swap contract	8,373,495	-	8,373,495	-
Other current liabilities	664,050	-	664,050	-
Current portion notes and bonds payable	3,948,848	6,601,013	10,549,861	2,909,777
Total current liabilities	18,212,035	9,445,008	27,657,043	4,064,677
Non current liabilities				
Notes and bonds payable	117,426,092	41,068,389	158,494,481	47,924,373
Deferred charge on bond issuance	(501,806)	-	(501,806)	(4,060,654)
Unamortized interest on capital appreciation bonds	(11,059,866)	-	(11,059,866)	(12,971,396)
Other	500,000	-	500,000	1,425,417
Accrued compensated absences	797,568	-	797,568	-
Total non-current liabilities	107,161,988	41,068,389	148,230,377	32,317,740
TOTAL LIABILITIES	125,374,023	50,513,397	175,887,420	36,382,417
NET ASSETS				
Invested in capital assets, net of related debt	-	43,431,274	43,431,274	-
Restricted for:				
Capital projects	-	2,204,124	2,204,124	-
Unrestricted	21,864,737	(869,603)	20,995,134	6,095,360
TOTAL NET ASSETS	21,864,737	44,765,795	66,630,532	6,095,360
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 147,238,760</u>	<u>\$ 95,279,192</u>	<u>\$ 242,517,952</u>	<u>\$ 42,477,777</u>

CITY OF READING
STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Functions/Programs	Expenses	Indirect Cost Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government					
Governmental activities:					
General government	\$ 8,402,230	\$ (1,440,338)	\$ 1,406,834	\$ 3,544,136	\$ -
Public safety:					
Police	27,580,999	-	376,185	1,488,821	-
Fire	11,202,636	-	3,367,790	102,561	-
EMS	3,239,021	-	4,526,820	288,178	-
Public works - highways and streets	2,828,702	-	78,219	1,270,965	-
Public works - other	6,589,855	-	92,121	81,721	-
Community development	14,121,261	243,280	6,396,745	12,019,839	-
Culture and recreation	1,795,865	-	655,411	930,077	-
Other	491,172	-	193,628	-	-
Debt service - interest	2,182,312	-	-	-	-
Total governmental activities	<u>78,434,053</u>	<u>(1,197,058)</u>	<u>17,093,753</u>	<u>19,726,298</u>	<u>-</u>
Business-type activities:					
Water	10,836,658	438,385	14,679,805	126,469	-
Sewer	13,549,056	687,125	19,019,547	56,354	-
Trash and recycling	2,768,056	71,548	3,066,357	179,000	-
Total business-type activities	<u>27,153,770</u>	<u>1,197,058</u>	<u>36,765,709</u>	<u>361,823</u>	<u>-</u>
Total primary government	<u>\$ 105,587,823</u>	<u>\$ -</u>	<u>\$ 53,859,462</u>	<u>\$ 20,088,121</u>	<u>\$ -</u>
Component Unit:					
Reading Parking Authority					
Parking	<u>\$ 5,445,415</u>	<u>\$ -</u>	<u>\$ 7,270,588</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

 Property taxes, levied for general purposes

 Earned income, franchise, and other taxes, levied for general purposes, net

Investment earnings

Capital contributions

Miscellaneous income

Transfers

Total General Revenues, Special Items, Extraordinary Items and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See accompanying notes.

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Unit (Reading Parking Authority)
\$ (2,010,922)	\$ -	\$ (2,010,922)	\$ -
(25,715,993)	-	(25,715,993)	-
(7,732,285)	-	(7,732,285)	-
1,575,977	-	1,575,977	-
(1,479,518)	-	(1,479,518)	-
(6,416,013)	-	(6,416,013)	-
4,052,043	-	4,052,043	-
(210,377)	-	(210,377)	-
(297,544)	-	(297,544)	-
(2,182,312)	-	(2,182,312)	-
<u>(40,416,944)</u>	<u>-</u>	<u>(40,416,944)</u>	<u>-</u>
-	3,531,231	3,531,231	-
-	4,839,720	4,839,720	-
-	405,753	405,753	-
<u>-</u>	<u>8,776,704</u>	<u>8,776,704</u>	<u>-</u>
(40,416,944)	8,776,704	(31,640,240)	-
-	-	-	1,825,173
14,900,497	-	14,900,497	-
18,412,582	-	18,412,582	-
1,847,844	320,360	2,168,204	399,665
-	960,464	960,464	-
-	(81,933)	(81,933)	10,402
<u>7,804,337</u>	<u>(7,804,337)</u>	<u>-</u>	<u>-</u>
42,965,260	(6,605,446)	36,359,814	410,067
2,548,316	2,171,258	4,719,574	2,235,240
<u>19,316,421</u>	<u>42,594,537</u>	<u>61,910,958</u>	<u>3,860,120</u>
<u>\$ 21,864,737</u>	<u>\$ 44,765,795</u>	<u>\$ 66,630,532</u>	<u>\$ 6,095,360</u>

CITY OF READING
BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2006

	General	Community Development
ASSETS		
Cash and cash equivalents	\$ 7,481,544	\$ 2,278,559
Investments	605,636	-
Accounts receivable	2,678,719	17,493
Taxes receivable, net	1,839,273	-
Interfund receivable	11,596,005	1,177,189
Intergovernmental receivable	550,000	549,867
Restricted assets - cash and investments	-	-
Notes receivable - noncurrent	-	28,252,681
	TOTAL ASSETS	\$ 32,275,789
	\$ 24,751,177	\$ 32,275,789
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 2,380,449	\$ 197,670
Payroll withholdings	83,239	-
Interfund payable	11,654,719	1,626,092
Deferred revenue	1,746,575	28,252,681
Other liabilities	414,050	-
	TOTAL LIABILITIES	30,076,443
	16,279,032	30,076,443
 FUND BALANCES		
Reserve for Capital Projects	-	-
Reserve for Debt Service	-	-
Unreserved/Undesignated Fund Balances:		
General Fund	8,472,145	-
Community Development	-	2,199,346
Redevelopment Authority	-	-
Agency Fund	-	-
Liquid Fuels	-	-
	TOTAL FUND BALANCES	2,199,346
	8,472,145	2,199,346
	\$ 24,751,177	\$ 32,275,789
	TOTAL LIABILITIES AND FUND BALANCES	\$ 32,275,789

See accompanying notes.

Capital Projects	Debt Service	Non-Major Funds	Total Governmental Funds
\$ 1,340,669	\$ 4,463	\$ 3,673,482	\$ 14,778,717
755,494	922,217	949,659	3,233,006
-	-	403,006	3,099,218
-	-	-	1,839,273
3,244,366	149,800	455,429	16,622,789
823,032	1,111,619	-	3,034,518
-	-	53	53
4,660,348	3,428,571	-	36,341,600
<u>\$ 10,823,909</u>	<u>\$ 5,616,670</u>	<u>\$ 5,481,629</u>	<u>\$ 78,949,174</u>
\$ 28,327	\$ -	\$ 184,966	\$ 2,791,412
-	-	-	83,239
660,046	-	2,885,662	16,826,519
-	4,540,191	976,957	35,516,404
-	-	-	414,050
688,373	4,540,191	4,047,585	55,631,624
10,135,536	-	-	10,135,536
-	1,076,479	-	1,076,479
-	-	-	8,472,145
-	-	-	2,199,346
-	-	426,077	426,077
-	-	686,351	686,351
-	-	321,616	321,616
10,135,536	1,076,479	1,434,044	23,317,550
<u>\$ 10,823,909</u>	<u>\$ 5,616,670</u>	<u>\$ 5,481,629</u>	<u>\$ 78,949,174</u>

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CITY OF READING

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

December 31, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 23,317,550
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$72,212,164 and the accumulated depreciation is \$35,198,586.		37,013,578
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		2,647,798
Other long-term loans (receivables) are not available to pay current period expenditures and therefore, are deferred in the funds.		32,792,872
Establish allowance for doubtful accounts - property taxes receivable (\$264,780) and other long-term asset receivables (\$2,622,876).		(2,887,656)
Net pension asset established upon long-term financing of unfunded pension obligation to be amortized over future periods when benefit is received.		47,474,680
Internal service funds used by management to charge the costs of workman's compensation insurance and other insurance to individual funds. The change in net assets of internal service funds is transferred to the governmental funds.		120,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:		
	\$ 225,481	
Bond Discount, Net of Amortization	1,704,845	
Bond Issuance Costs, Net of Amortization	(121,374,940)	
Bonds/Notes/Leases Payable	(584,599)	
Accrued Interest on Bonds	11,059,866	
Unamortized Interest	(797,568)	
Compensated Absences	276,325	(109,490,590)
Deferred (Gain/Loss) on Bond Issuance		
Interest rate option payment to be amortized over the life of agreement, net of amortization		(8,373,495)
Establish liability for legal settlement, not due and payable in the current period.		<u>(750,000)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u>\$ 21,864,737</u>

CITY OF READING

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

Year Ended December 31, 2006

	General	Community Development	Capital Projects
Revenues:			
Real estate taxes	\$ 15,154,040	\$ -	\$ -
Act 511 taxes	18,361,127	-	-
Licenses, permits and fines	4,605,039	-	-
Intergovernmental	5,469,630	6,007,486	-
Charges for services	5,404,246	1,807,391	-
Interest and rent	1,493,663	-	35,847
Other	2,191,847	-	-
	<u>52,679,592</u>	<u>7,814,877</u>	<u>35,847</u>
TOTAL REVENUES			
Expenditures:			
Current:			
General government	7,219,098	-	-
Public safety			
Police	24,447,227	-	-
Fire	10,232,975	-	-
EMS	3,128,181	-	-
Public works - highways and streets	1,420,290	-	-
Public works - other	6,611,301	-	-
Community development	389,100	7,335,860	-
Culture and recreation	1,268,824	-	-
Payment to fund pension obligation	47,474,680	-	-
Other	491,172	-	-
Capital outlays	-	-	1,936,307
Debt service - principal	2,794,436	-	5,000
Debt service - interest	2,072,810	-	-
Debt service - costs	1,323,375	-	-
	<u>108,873,469</u>	<u>7,335,860</u>	<u>1,941,307</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(56,193,877)	479,017	(1,905,460)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	55,215,000	-	-
Proceeds from note	-	-	1,590,584
Proceeds from interest rate swap contract	4,500,397	-	-
Operating transfers in	7,848,278	-	-
Operating transfers out	(1,806,079)	-	(35,717)
	<u>65,757,596</u>	<u>-</u>	<u>1,554,867</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	9,563,719	479,017	(350,593)
FUND BALANCES - BEGINNING	(1,091,574)	1,720,329	10,486,129
FUND BALANCES - ENDING	<u>\$ 8,472,145</u>	<u>\$ 2,199,346</u>	<u>\$ 10,135,536</u>

See accompanying notes.

Debt Service	Non-Major Funds	Total Governmental Funds
\$ -	\$ -	\$ 15,154,040
-	-	18,361,127
-	-	4,605,039
-	8,287,470	19,764,586
-	-	7,211,637
13,151	305,183	1,847,844
-	16,861	2,208,708
13,151	8,609,514	69,152,981
-	-	7,219,098
-	736,512	25,183,739
-	158,966	10,391,941
-	-	3,128,181
-	1,100,169	2,520,459
-	68,554	6,679,855
-	6,268,743	13,993,703
-	-	1,268,824
-	-	47,474,680
-	-	491,172
-	493,269	2,429,576
-	-	2,799,436
-	-	2,072,810
-	-	1,323,375
-	8,826,213	126,976,849
13,151	(216,699)	(57,823,868)
-	-	55,215,000
-	-	1,590,584
-	-	4,500,397
-	-	7,848,278
-	(8,223)	(1,850,019)
-	(8,223)	67,304,240
13,151	(224,922)	9,480,372
1,063,328	1,658,966	13,837,178
<u>\$ 1,076,479</u>	<u>\$ 1,434,044</u>	<u>\$ 23,317,550</u>

CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2006

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 9,480,372

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	\$ 2,945,484	
Less: Depreciation Expense	<u>(3,139,968)</u>	(194,484)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include the change of unavailable deferred revenue

Tax Revenue	(253,543)	
Notes Receivable	<u>4,278,594</u>	4,025,051

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term transactions in the statement of activities is shown below:

Issuance of Bonds and Notes	(56,805,584)	
Amortization of Bond Discount	(19,035)	
Amortization of Deferred Gains/Losses on Bond Issuance	(27,633)	
Capitalization of Debt Service Costs	1,371,219	
Repayment of Bond Principal	2,889,436	
Amortization of Bond Issuance Costs	<u>(34,531)</u>	(52,626,128)

Interest rate option payment to be amortized over life of agreement		(4,256,305)
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CITY OF READING

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
CONTINUED

Year Ended December 31, 2006

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.	(354,771)
In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	(3,103)
Internal service funds are used by management to change the cost of insurance bond related claims to individual funds. Net revenues over expenditures were allocated back equitably to governmental activities.	(246,996)
Pension expense paid to fund unfunded actuarial pension accrued liability in excess of the annual required contribution.	47,474,680
Settlement awarded but not payable in the current period	<u>(750,000)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,548,316</u></u>

CITY OF READING
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS

Year Ended December 31, 2006

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 1,799,859	\$ (2,818,436)	\$ 695,218	\$ (323,359)	\$ 137,411
Investments	100,000	98,718	-	198,718	2,697,060
Accounts receivable, net of allowance of \$1,870,966 in the enterprise funds	2,041,030	2,200,558	642,879	4,884,467	61,645
Interfund receivables	2,047,942	7,812,362	338,793	10,199,097	2,805,098
Intergovernmental receivables	-	2,034,550	-	2,034,550	-
Other receivables	268,069	-	-	268,069	-
Prepaid expenses	5,000	-	-	5,000	-
Inventory	572,840	-	-	572,840	-
Total current assets	6,834,740	9,327,752	1,676,890	17,839,382	5,701,214
Restricted assets					
Cash and investments	6,321,735	-	-	6,321,735	-
Other non-current assets					
Unamortized bond discount	281,058	817,938	-	1,098,996	-
Unamortized bond issue costs	365,061	77,710	-	442,771	-
Land	2,059,359	15,000	-	2,074,359	-
Buildings	7,789,674	38,216,252	-	46,005,926	-
Improvements	48,392,184	25,935,696	-	74,327,880	-
Machinery and equipment	5,777,727	6,705,303	601,502	13,084,532	-
Construction in progress	2,825,665	1,103,997	-	3,929,662	-
Less: accumulated depreciation	(31,805,723)	(26,819,171)	(316,355)	(58,941,249)	-
Total other non-current assets	35,685,005	46,052,725	285,147	82,022,877	-
TOTAL ASSETS	\$ 48,841,480	\$ 55,380,477	\$ 1,962,037	\$ 106,183,994	\$ 5,701,214

See accompanying notes.

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
LIABILITIES					
Current liabilities					
Accounts payable	\$ 764,213	\$2,067,618	\$ 11,436	\$ 2,843,267	\$ 561,465
Interfund payables	4,422,805	4,253,762	2,228,235	10,904,802	2,445,430
Accrued interest	728	-	-	728	-
Deferred revenue	-	-	-	-	-
Accrued claims	-	-	-	-	2,574,319
Current portion notes and bonds payable	2,484,841	4,116,172	-	6,601,013	-
Total current liabilities	<u>7,672,587</u>	<u>10,437,552</u>	<u>2,239,671</u>	<u>20,349,810</u>	<u>5,581,214</u>
Noncurrent liabilities					
Notes and bonds payable	26,837,204	14,231,185	-	41,068,389	-
TOTAL LIABILITIES	<u>34,509,791</u>	<u>24,668,737</u>	<u>2,239,671</u>	<u>61,418,199</u>	<u>5,581,214</u>
NET ASSETS					
Invested in capital assets, net of related debt	15,440,758	27,705,369	285,147	43,431,274	-
Restricted for capital projects	2,204,124	-	-	2,204,124	-
Unrestricted net assets (accumulated deficit)	(3,313,193)	3,006,371	(562,781)	(869,603)	120,000
TOTAL NET ASSETS	<u>14,331,689</u>	<u>30,711,740</u>	<u>(277,634)</u>	<u>44,765,795</u>	<u>120,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 48,841,480</u></u>	<u><u>\$ 55,380,477</u></u>	<u><u>\$ 1,962,037</u></u>	<u><u>\$ 106,183,994</u></u>	<u><u>\$ 5,701,214</u></u>

CITY OF READING

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS**

Year Ended December 31, 2006

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)
OPERATING REVENUES			
Charges for services	\$ 14,335,160	\$ 19,019,547	\$ 2,946,186
Other	344,645	-	120,171
TOTAL OPERATING REVENUES	14,679,805	19,019,547	3,066,357
OPERATING EXPENSES			
Personnel	3,719,625	3,812,188	138,455
Depreciation and amortization	1,707,173	2,080,713	61,628
Other	3,802,513	6,409,684	2,639,521
TOTAL OPERATING EXPENSES	9,229,311	12,302,585	2,839,604
NET OPERATING INCOME (LOSS)	5,450,494	6,716,962	226,753
NONOPERATING REVENUES (EXPENSES)			
Grants	126,469	56,354	179,000
Interest income	316,179	4,181	-
Interest expense	(1,142,693)	(1,030,557)	-
Other	222,308	-	(14,290)
NET NONOPERATING REVENUES (EXPENSES)	(477,737)	(970,022)	164,710
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	4,972,757	5,746,940	391,463
Capital contributions	960,464	-	-
Operating transfers in	-	-	-
Operating transfers out	(4,073,524)	(5,536,891)	-
NET INCOME (LOSS)	1,859,697	210,049	391,463
NET ASSETS (ACCUMULATED DEFICIT), BEGINNING OF YEAR	12,471,992	30,501,691	(669,097)
NET ASSETS (ACCUMULATED DEFICIT), END OF YEAR	\$ 14,331,689	\$ 30,711,740	\$ (277,634)

See accompanying notes.

Total Enterprise Funds	Internal Service Funds
\$ 36,300,893	\$ -
<u>464,816</u>	<u>77,816</u>
36,765,709	77,816
7,670,268	94,236
3,849,514	-
<u>12,851,718</u>	<u>4,253,565</u>
<u>24,371,500</u>	<u>4,347,801</u>
12,394,209	(4,269,985)
361,823	-
320,360	120,881
(2,173,250)	-
<u>208,018</u>	<u>-</u>
<u>(1,283,049)</u>	<u>120,881</u>
11,111,160	(4,149,104)
960,464	-
-	3,612,156
<u>(9,610,415)</u>	<u>-</u>
2,461,209	(536,948)
<u>42,304,586</u>	<u>656,948</u>
<u>\$ 44,765,795</u>	<u>\$ 120,000</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2006

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 13,754,064	\$ 19,134,641	\$ 2,854,254
Cash payments to employees for services	(3,719,625)	(3,812,188)	(138,455)
Cash payments to suppliers for goods and services	(2,898,374)	(4,291,320)	(2,803,651)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	7,136,065	11,031,133	(87,852)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating revenues/expenses, net	222,308	-	(14,290)
Grants	126,469	56,354	179,000
Operating transfers in	-	-	-
Operating transfers out	(4,073,524)	(5,536,891)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(3,724,747)	(5,480,537)	164,710
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Capital contributions	830,464	-	-
Interest paid	(1,142,682)	(1,030,557)	-
Disbursement from bond proceeds account	12,840	-	-
Payments of long-term debt	(1,869,993)	(3,951,175)	-
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(2,169,371)	(4,981,732)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(1,577,160)	(556,354)	(153,324)
Interest earnings	58,392	4,181	-
Net purchase (redemption) of investments	-	(4,181)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,518,768)	(556,354)	(153,324)
NET INCREASE (DECREASE) IN CASH	(276,821)	12,510	(76,466)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,076,680	(2,830,946)	771,684
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,799,859</u>	<u>\$ (2,818,436)</u>	<u>\$ 695,218</u>

See accompanying notes.

Totals	Internal Service Fund
\$ 35,742,959	\$ 77,816
(7,670,268)	(94,236)
<u>(9,993,345)</u>	<u>(4,570,362)</u>
18,079,346	(4,586,782)
208,018	-
361,823	-
-	3,612,156
<u>(9,610,415)</u>	<u>-</u>
(9,040,574)	3,612,156
830,464	-
(2,173,239)	-
12,840	-
<u>(5,821,168)</u>	<u>-</u>
(7,151,103)	-
(2,286,838)	-
62,573	120,881
<u>(4,181)</u>	<u>(116,162)</u>
<u>(2,228,446)</u>	<u>4,719</u>
(340,777)	(969,907)
17,418	1,107,318
<u>\$ (323,359)</u>	<u>\$ 137,411</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2006

	Water Fund	Sewer Fund	Other Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 5,450,494	\$ 6,716,962	\$ 226,753
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,707,173	2,080,713	61,628
Amortization of bond issue costs	60,946	107,202	-
Net (increase) decrease in assets:			
Accounts receivable	(799,272)	115,094	340,697
Other receivables	(126,469)	-	-
Prepaid expenses	750	-	-
Due from other funds	246,537	1,196,830	1,311
Due from other governments	-	(55,239)	-
Inventory	(476,390)	-	-
Net increase (decrease) in liabilities:			
Accounts payable	(70,859)	47,594	(246,067)
Due to other funds	1,143,155	821,977	80,626
Deferred revenue	-	-	(552,800)
Accrued claims	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 7,136,065</u>	<u>\$ 11,031,133</u>	<u>\$ (87,852)</u>

See accompanying notes.

<u>Totals</u>	<u>Internal Service Fund</u>
\$ 12,394,209	\$ (4,269,985)
3,849,514	-
168,148	-
(343,481)	2,145
(126,469)	-
750	-
1,444,678	(1,854,390)
(55,239)	-
(476,390)	-
(269,332)	556,048
2,045,758	403,609
(552,800)	-
-	575,791
<u>\$ 18,079,346</u>	<u>\$ (4,586,782)</u>

CITY OF READING
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2006

ASSETS	<u>Total Fiduciary Funds</u>	<u>Agency Earned Income Tax Fund</u>
Cash and cash equivalents	\$ 54,091,979	\$ 4,262,002
Investments	127,972,620	2,034,552
Interfund receivable	-	4,052,812
TOTAL ASSETS	<u>\$ 182,064,599</u>	<u>\$ 10,349,366</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 184,095	\$ 2,343,554
Interfund payable	32,500	3,470,545
Funds held in escrow	-	4,535,267
TOTAL LIABILITIES	216,595	10,349,366
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	 <u>181,848,004</u>	 <u>-</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 182,064,599</u>	<u>\$ 10,349,366</u>

See accompanying notes.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

The City of Reading, Pennsylvania (the City) was founded by Thomas and Richard Penn in 1748, established as a borough in 1783 and incorporated as a city on March 26, 1847. The City operates as a home rule/strong mayor form of government and provides all municipal services to its residents.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting policies of the City conform to generally accepted accounting principles as applicable to governmental units. The more significant policies and practices of the City are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures of the City's financial activities for the year ended December 31, 2006.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units.

The City used guidance contained in GASB Statement No. 14, *The Financial Reporting Entity as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units*, to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organizations' governing body and the City is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City as defined below.

Impose its will - If the City can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

Financial benefit or burden - exists if the City (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issued bonded debt without approval by the City.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Based on the foregoing criteria, the reporting entity has been defined to include all criteria for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's financial statements are provided in the following paragraphs. Separately published audit reports of the component units, except for the Reading Redevelopment Authority, are available for public inspection in the City's finance office.

Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component units reported in this way are the Reading Area Water Authority and the Reading Redevelopment Authority.

Reading Area Water Authority - The authority was formed pursuant to the Municipal Authority Act of 1986 for the purpose of providing certain utility services to the residents of the City, through lease of city-owned assets. The five-member board of directors is appointed by the mayor. The Authority's only financial transaction is the operation of the water operations on behalf of the City. The Authority publishes a separate financial statement and is accounted for in the enterprise funds of the City's financial statements.

Reading Redevelopment Authority - The Redevelopment Authority was established pursuant to the Urban Redevelopment Act of 1945 (Public Law-991). The Redevelopment Authority is administered by a five-member board, all of who are appointed by the mayor. The Authority was established to provide a broad range of urban renewal and maintenance programs within the City, in addition to coordination of efforts to improve the economic vitality, the housing stock and overall living conditions within the City. The Redevelopment Authority operates on a calendar year. Its financial activity is accounted for in the Special Revenue Fund of the City's financial statements.

Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component unit presented in this way is the Reading Parking Authority.

Reading Parking Authority - The Authority was incorporated in 1953 under the provisions of the parking authority law. The entire board of directors is appointed by the mayor, and members can be removed from the board at will. The Authority was formed to provide parking facilities to residential and commercial users. The City has agreed to guarantee all of the existing revenue bonds of the Authority.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Potential Component Units Excluded

Reading Housing Authority - The Housing Authority was established pursuant to the housing authority law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member board, all of who are appointed by the mayor.

The Housing Authority operates low rent subsidized housing projects established within the City. The Authority manages the acquisition of federal and state funds for the construction and/or improvements to low income properties and reviews programs with the landlords to insure compliance with various rules and regulations. The City has no financial accountability over the Authority's operations.

The Housing Authority operates and reports on a fiscal year ending March 31.

School Board and Other Entities

The reporting entity excludes the Reading School District and Reading Area Community College (RACC), both of which operate within the City's geographic boundaries. The School District is a governmental unit with its own elected governing body, and RACC is governed by a board of trustees whose members are appointed by the County of Berks.

Related Organizations

The City Council and mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

Stadium Commission
Plumbing Board of Examiners
Heating Board of Examiners
Vacant Property Review Committee
Board of Historical and Architectural Review
Board of Health
Electricians Examining Board

The amounts the City appropriated to these organizations during the year ended December 31, 2006, were immaterial to the basic financial statements taken as a whole.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government-Wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding activities such as employee pension plans. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note D for information describing restricted assets.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allocation of Indirect Expenses

The City allocates indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services, and other central administrative services. Allocations are charged to programs based on use of central services determined by various allocation methodologies. These charges are separately reported in the statement of activities. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include police, fire, and certain divisions within public services and parks.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues and expenses or expenditures as appropriate. Resources are allocated to and accounted for in the individual funds based on the purposes for which they are to be spent.

The three types of funds presented in this report are as follows:

GOVERNMENTAL FUND TYPES - These fund types are used to account for most of the existing governmental functions. The focus is on determination of the financial position and changes in financial position (current financial resources) rather than income determination.

General Fund: This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Special Revenue Funds: These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes (General Agency, Liquid Fuels, Community Development and Redevelopment Authority).

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Projects Funds: These funds are established to account for major capital expenditures not financed by Enterprise Funds, Internal Service Funds, or Trust Funds.

Debt Service Funds: These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds. The Debt Service Fund also holds notes receivable from other governments for funds advanced from long-term debt. These receivables are offset by deferred revenue to reflect future use of funds received to repay outstanding debt of the City.

PROPRIETARY FUND TYPES - These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

Enterprise Funds: (Water Fund, Sewer Fund, and Recycling Fund) These funds are maintained to account for activities that are financed and operated in a manner similar to private business, with the intent that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered, primarily through user charges.

Internal Service Funds: Internal Service Funds (Self-Insurance) are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other Governments on a cost-reimbursement basis.

FIDUCIARY FUND TYPES - These funds account for assets held by the City in a trustee capacity or as agent for individuals, other governments and other funds. These funds are as follows:

Pension Trust Funds: These funds were established to provide pension benefits for City employees. The principal revenue source for these funds is employer and employee contributions (includes Police, Fire, and Officers and Employees Trust Funds).

Agency Funds: These funds are the Earned Income Tax Collectors' funds, which accounts for funds held in escrow for the City and other parties.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

During September, City department heads are required to submit requested operating budgets to the City Manager for the fiscal year commencing the following January 1. The budgets submitted include proposed expenditures along with a narrative justification for such expenditures. Budgets, as submitted, are subject to a detailed review by the Finance Director and City Manager. This review process, which continues through November, includes meetings with the City Council, comparisons with prior year's spending patterns, and forecasting of future needs.

As required by the Home Rule Charter, the proposed budget is made available for public inspection for at least thirty days prior to the date of adoption, with adoption required by December 31. Subsequent to the budget approval, the City Council adopts the appropriation measures required to put the budget into effect and fix the rate of taxation.

Within 31 days subsequent to the legal adoption of the budget, the Finance Director files a copy of the budget with the Department of Community and Economic Development of the Commonwealth of Pennsylvania. Should supplemental budget appropriations be required, the City Council may, within statutory limitations, authorize the transfer of funds between line items by means of a resolution approved at a regularly scheduled Council meeting. Expenditures may not legally exceed budgeted amounts at the line item level (see Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General, Budgeted Special Revenue and Debt Service Funds).

Annual budgets providing comprehensive appropriations are legally adopted for all Governmental Funds except the Community Development Fund and General Agency Fund, which are both Special Revenue Funds; and the Capital Projects Funds. Budgets are adopted on a modified accrual basis; accordingly, revenues are reported when susceptible to accrual and expenditures are recorded when incurred.

Appropriations in Governmental Funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitment. Even though goods and services have not been received, the transactions are accounted for as a reservation of fund balances in the year the commitment is made. While appropriations lapse at the end of the year, encumbrances outstanding are reported as reservations of fund balance for subsequent expenditures.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences - The City allows employees to accumulate sick leave based on contractual agreements. Police accumulate a maximum of 30 days; firemen accumulate a maximum of 105 days; non-uniformed employees accumulate a maximum of 45 days of sick leave. Upon termination, police are paid their accumulated sick leave at their hourly rate. Firemen and non-uniformed employees, upon retirement only, are paid at the rate of \$30 per day and \$20 per day, respectively, for accumulated sick leave. Earned vacation time is generally required to be used within one year of accrual. Additionally, all employees are permitted to accrue compensatory time, paid at their standard hourly rate upon termination.

Compensated absences are reported as accrued on the government-wide, proprietary and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

Cash and Cash Equivalents - The City's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. Exceptions include the three pension funds which classify cash as cash equivalents in order to appropriately report investment activity.

Investments - For funds other than Pension Trust Funds, State law allows the City to invest in obligations of the United States of America, the Commonwealth of Pennsylvania or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the City to invest in certificates of deposit of banks, savings and loan associations and savings banks both within and outside the Commonwealth of Pennsylvania provided such amounts are insured by the FDIC or other like insurance and that deposits in excess of such insurance are collateralized by the depository. The State also imposes limitations with respect to the amount of investments in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan association's or savings bank's net assets.

The City may also invest in shares of registered investment companies, provided that investments of such companies are in authorized investments as noted above.

The law provides that the City's Pension Trust Funds may be invested in any form or type of investment or financial instrument when determined by the City to be prudent.

Temporary cash investments and investments for all funds, except the Pension Trust Funds, are stated at market value. Investments of the Pension Trust Funds are stated at fair value, in accordance with the provisions of Statement 25 of the Governmental Accounting Standards Board.

Receivables/Payables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Inventories of the governmental funds, consisting principally of expendable supplies, are recorded under the purchase method. Inventories are recorded as expenditures when purchased. One exception is inventory in the Redevelopment Authority which is costs to acquire land and vacated buildings, which will be used for redevelopment activity.

Inventories of the enterprise funds are carried at the lower of cost or market, using the first-in, first-out method.

Prepaid Expenses - In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

Capital Assets, Depreciation and Amortization - The City's property, plant and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10 - 40
Machinery and equipment	3 - 25
Improvements	5 - 75
Infrastructure	30 - 50

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Long-Term Debt, Deferred Debt Expense, and Bond Discounts/Premiums - In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Balances - Reserves are those portions of fund balance that are not appropriable for expenditure or legally segregated for a specific future use.

Designated fund balances are established to indicate tentative plans for future financial resource utilization.

Property Taxes - Significant dates on the City's property tax calendar are as follows:

Levy and lien date	January 15
Due dates	By April 30 with 2% discount; by June 30 at face value; and thereafter with 10% penalty

Transfers - Operating transfers between fund types are reported as other financing sources (uses) in each respective fund. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

Revenue from State and Federal Sources - Revenues from federal and state agencies designated for payment of specific City expenditures are recognized in the government-wide and fund statement when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year-end is recorded as deferred revenue or a receivable, respectively.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's investment authority for all funds, except Fiduciary Funds, is set by state statute to include: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities and shares of any investment company which invests only in the above or certificates of deposit. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must be at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

Cash

Custodial Credit Risk - Deposit

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2006, \$80,749,084 of the City's bank balance of \$81,151,777 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the City's name	<u>80,749,084</u>
	<u>\$ 80,749,084</u>
 <u>Reconciliation to Financial Statements</u>	
Uncollateralized amount above	\$ 80,749,084
Plus: insured amount	402,693
Less: outstanding checks	(23,975,890)
Plus: deposits in trust	<u>15,770,863</u>
Carrying amount bank balances	72,946,750
Plus: pooled cash equivalents	<u>1,096,387</u>
Total Cash	<u>\$ 74,043,137</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2006, the City had the following investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2006			
		0-3 Years	4-7 Years	8-10 Years	11 plus Years
Federal Home Loan Bk	\$ 159,821	\$ -	\$ 159,821	\$ -	\$ -
Federal Home Loan Mtg Corp	396,268	149,204	75,891	171,173	-
Federal Natl Mtg Assn	711,965	177,398	534,567	-	-
US Treasury Nts Bd	881,933	369,256	512,677	-	-
US Treasury Nts Nt	1,128,847	738,773	-	390,074	-
US Treasury Nts Bds	33,074	-	-	-	33,074
JP Morgan #C35547	896,849	896,849	-	-	-
	4,208,757	<u>\$2,331,480</u>	<u>\$ 1,282,956</u>	<u>\$ 561,247</u>	<u>\$ 33,074</u>
Money Market Funds	2,541,728				
Certificates of Deposits	316,464				
	<u>\$ 7,066,949</u>				

Interest Rate Risk

The City does have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2006, the City's investments were rated as:

Investment	Standard & Poor's (Moody's & Fitch)
Federal Home Loan Bk	AAA
Federal Home Loan Mtg Corp	AAA
Federal Natl Mtg Assn	AAA
US Treasury Nts Bd	AAA
US Treasury Nts Nt	AAA
US Treasury Nts Bds	AAA
JP Morgan #C35547	AA

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in the General Fund, Proprietary Funds (Internal Service), Fiduciary Funds (Earned Income Tax), Non-Major Funds (Redevelopment Authority), and Debt Service. These investments are 7.5%, 33.0%, 24.9%, 9.1%, and 11.3%, respectively, of the City's total investments. More than 5% of the City's total governmental funds include the General Fund, Non-Major Funds (Agency and Redevelopment Funds), Debt Service and Capital Projects at 18.9%, 29.3%, 28.5% and 23.3%, respectively. In the business-type activities, more than 5% of the investments are in the Proprietary Funds (Internal Service). These investments are 93.1%.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City has no investment subject to custodial credit risk.

Pension Trust Fund

The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, the paid Firemen, and City Officers and Employees Pension Funds.

As of December 31, 2006 the City had the following cash and investments in its pension trust funds:

<u>Police</u>	<u>Fair</u>	<u>Investment Maturities from December 31, 2006</u>			
		<u>Less than</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>More than</u>
<u>Cash or Investment Type</u>	<u>Market Value</u>	<u>1 year</u>			<u>10 years</u>
Corporate Bonds	\$ 2,006,625	\$ 65,021	\$ 1,402,904	\$ 442,733	\$ 95,967
Government Bonds	19,184,717	2,153,908	10,770,703	4,726,206	1,533,900
Mortgage Backed Securities	154,184	-	84,500	-	69,684
Foreign Bonds	56,415	-	-	-	56,415
Gov't Asset Backed Securities	1,950,801	-	-	-	1,950,801
Total Debt Securities	23,352,742	\$ 2,218,929	\$ 12,258,107	\$ 5,168,939	\$ 3,706,767
Cash and Cash Equivalents	1,799,029				
Equity Mutual Funds	23,147,011				
Total Cash and Other Investments	\$ 48,298,782				

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Pension Trust Fund - continued

<u>Paid Firemen's</u>	Fair Market Value	Investment Maturities from December 31, 2006		
		0 - 5 years	5 - 15 years	More than 15 years
<u>Cash or Investment Type</u>				
Asset Backed	\$ 70,020	\$ 70,020	\$ -	\$ -
Corporate Variable	195,522	145,391	-	50,131
Corporate CMO	89,706	55,454	-	34,252
Corporate Fixed	2,765,922	1,468,795	1,058,686	238,441
Federal Agencies	380,415	302,227	47,922	30,266
FHLM Pools	806,954	47,594	-	759,360
FNMA Pools	883,754	-	742,926	140,828
Foreign Bonds and Notes	207,063	106,766	45,884	54,413
GNMA Pools	136,854	14,184	-	122,670
U.S. Gov't Obligation Bonds	391,274	-	151,895	239,379
U.S. Gov't Obligation Notes	1,837,263	1,003,737	833,526	-
Total Debt Securities	7,764,747	<u>\$ 3,214,168</u>	<u>\$ 2,880,839</u>	<u>\$ 1,669,740</u>
Cash and Cash Equivalents	3,407,396			
Equity Mutual Funds	27,456,019			
	<u>\$ 38,628,162</u>			
<u>Officers & Employees</u>	Fair Market Value	Investment Maturities from December 31, 2006		
		0 - 5 years	5 - 15 years	More than 15 years
Cash and Cash Equivalents	\$ 253			
Fixed Funds	14,723,883			
Equity Funds	26,321,540			
	<u>\$ 41,045,676</u>			

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2006, the pension trust funds' investment in corporate bonds ranged from AAA to BBB-.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk. As of December 31, 2006, the City's entire pension balance was exposed to custodial credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. There were no investments in any pension plan that constituted more than 5% of any of the pension plan net assets available for benefits at December 31, 2006. In addition, the plans did not have any investment transactions with related parties during the year.

Interest Rate Risk

The pension trust funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE C - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Enterprise Receivables, Uncollectible Accounts and Deferred Revenue

Significant receivables include amount due from customers primarily for utility services. These receivables are all due. An allowance for uncollectible accounts is estimated using accounts receivable more than 60 to 90 days depending on the fund. Related amounts are shown in the following table:

	Major Enterprise		Other Enterprise (Recycling)	Total Primary Government	Component Unit
	Water	Sewer			
Accounts receivable, gross	\$ 2,744,123	\$ 2,775,633	\$ 1,235,677	\$ 6,755,433	\$ 178,710
Less: allowance uncollectible accounts	703,093	575,075	592,798	1,870,966	-
Net accounts receivable	<u>\$ 2,041,030</u>	<u>\$ 2,200,558</u>	<u>\$ 642,879</u>	<u>\$ 4,884,467</u>	<u>\$ 178,710</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE C - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Governmental Receivables, Uncollectible Accounts and Deferred Revenue

Property taxes are levied annually on January 15. Major payments are received January through June 30. Thereafter, taxes collected include a 10% penalty. Lien dates for taxes due is January 15 the following year.

Governmental funds also include significant loans receivable for economic development loans which are collectible in future years.

In the government-wide financial statements, receivables are recorded net of an allowance for uncollectible accounts regardless of when cash will be received. In the fund financial statements, the net amount of property taxes collectible which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

NOTE D - RESTRICTED ASSETS - LIMITED AS TO USE

Pursuant to an Indenture of Trust agreed to by the Redevelopment Fund blended and discretely presented component units, or by law, the following restricted cash and investments are held at December 31, 2006:

	Primary Government			Component Unit
	Redevelopment Fund	Reading Area Water Authority	Total	The Reading Parking Authority
Construction Account	\$ 53	\$ 4,984,691	\$ 4,984,744	\$ -
Debt Service Account	-	487	487	305,803
Debt Service Reserve Account	-	1,319,547	1,319,547	4,766,835
Clearing Account	-	17,010	17,010	12,441
Other	-	-	-	1,010
Total	\$ 53	\$ 6,321,735	\$ 6,321,788	\$ 5,086,089

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 280,960	\$ -	\$ -	\$ 280,960
Construction in progress	<u>1,082,565</u>	<u>203,982</u>	<u>-</u>	<u>1,286,547</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	1,363,525	203,982	-	1,567,507
Capital assets being depreciated:				
Buildings	28,462,920	-	-	28,462,920
Machinery and equipment	23,710,536	2,083,944	(156,897)	25,637,583
Improvements	10,673,330	657,558	-	11,330,888
Infrastructure	<u>5,213,266</u>	<u>-</u>	<u>-</u>	<u>5,213,266</u>
Totals at historical cost	68,060,052	2,741,502	(156,897)	70,644,657
Less accumulated depreciation for:				
Buildings	11,592,754	609,348	-	12,202,102
Machinery and equipment	16,585,363	1,925,756	(156,896)	18,354,223
Improvements	1,709,544	444,484	-	2,154,028
Infrastructure	<u>2,327,853</u>	<u>160,380</u>	<u>-</u>	<u>2,488,233</u>
Total accumulated depreciation	<u>32,215,514</u>	<u>3,139,968</u>	<u>(156,896)</u>	<u>35,198,586</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>35,844,538</u>	<u>(398,466)</u>	<u>(1)</u>	<u>35,446,071</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 37,208,063</u>	<u>\$ (194,484)</u>	<u>\$ (1)</u>	<u>\$ 37,013,578</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE E - CAPITAL ASSETS - CONTINUED

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,074,359	\$ -	\$ -	\$ 2,074,359
Construction in progress	3,671,031	501,120	(242,489)	3,929,662
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	5,745,390	501,120	(242,489)	6,004,021
Capital assets being depreciated:				
Buildings	46,005,926	-	-	46,005,926
Machinery and equipment	11,980,368	1,104,164	-	13,084,532
Improvements	73,403,837	924,043	-	74,327,880
Totals at historical cost	131,390,131	2,028,207	-	133,418,338
Less accumulated depreciation for:				
Buildings	20,767,800	905,462	-	21,673,262
Machinery and equipment	8,517,250	673,446	-	9,190,696
Improvements	25,806,686	2,270,605	-	28,077,291
Total accumulated depreciation	55,091,736	3,849,513	-	58,941,249
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	76,298,395	(1,821,306)	-	74,477,089
 BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	 <u>\$ 82,043,785</u>	 <u>\$ (1,320,186)</u>	 <u>\$ (242,489)</u>	 <u>\$ 80,481,110</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE E - CAPITAL ASSETS - CONTINUED

Component Unit	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,138,431	\$ 220,655	\$ -	\$ 2,359,086
Construction in progress	145,861	7,667,796	-	7,813,657
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,284,292	7,888,451	-	10,172,743
Capital assets being depreciated:				
Buildings	34,928,628	538,019	-	35,466,647
Machinery and equipment	1,061,728	83,490	-	1,145,218
Improvements	144,620	-	-	144,620
Totals at historical cost	36,134,976	621,509	-	36,756,485
Less accumulated depreciation for:				
Buildings	13,739,274	879,654	-	14,618,928
Machinery and equipment	724,445	85,798	-	810,243
Improvements	98,709	3,249	-	101,958
Total accumulated depreciation	14,562,428	968,701	-	15,531,129
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	21,572,548	(347,192)	-	21,225,356
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$ 23,856,840</u>	<u>\$ 7,541,259</u>	<u>\$ -</u>	<u>\$ 31,398,099</u>

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

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,364,597	Water system	\$ 1,707,173
Public safety:		Sewer system	2,080,713
Police	604,210	Recycling	61,627
Fire	402,806		
Public works - highway/streets	129,949		<u>\$ 3,849,513</u>
Community development	152,581		
Culture and recreation	485,825		
	<u>\$ 3,139,968</u>		

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE F - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2006:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 11,596,005	\$ 11,654,719 *
Community Development	1,177,189	1,626,092
Capital Projects	3,244,366	660,046
Debt Service	149,800	-
Non-major Governmental Funds	455,429	2,885,662
Internal Service	2,805,098	2,445,430
Business-Type Activities		
Major Funds		
Water	2,047,942	4,422,805
Sewer	7,812,362 *	4,253,762
Non-major Proprietary Funds	<u>338,793</u>	<u>2,228,235 *</u>
	29,626,984	30,176,751
 Fiduciary and Agency Funds	 <u>4,052,812</u>	 <u>3,503,045</u>
	 <u>\$ 33,679,796</u>	 <u>\$ 33,679,796</u>

* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE F - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2006:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$ 7,848,278	\$ 1,806,079
Capital Projects	-	35,717
Non-major Governmental Funds	-	8,223
Internal Service Funds	3,612,156	-
Business-Type Activities		
Major Funds:		
Water	-	4,073,524
Sewer	-	5,536,891
	<u>\$ 11,460,434</u>	<u>\$ 11,460,434</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

NOTE G - LIABILITIES

In January, 2006, the City issued tax and revenue anticipation notes in the amount of \$6,500,000, which included interest at 3.6% per annum. These notes were repaid in 2006.

<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at End of Year</u>
<u>\$ -</u>	<u>\$ 6,500,000</u>	<u>\$ (6,500,000)</u>	<u>\$ -</u>

The City has an unused letter of credit of \$800,000 as of December 31, 2006.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE G - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Governmental Activities					
<u>Bonds Payable</u>					
Obligation under agreement with Washington County Authority, Municipal Facilities Lease Revenue Bonds, Series 1985A-1 through 1985C-1, Subseries B.	\$ 7,100,000	\$ -	\$ 400,000	\$ 6,700,000	\$ 300,000
1998 Obligation under agreement with York General Authority - Adjustable rate pooled revenue bonds, with interest payable monthly calculated based on the Weekly Interest Rate payable through 2010.	2,094,370	-	366,600	1,727,770	383,500
General Obligation Bonds, Series of 2002, (Capital Appreciation Bonds) with 2.75% - 5.75% interest payable through 2019. Proceeds of the bonds were used to finance capital project and bond issuance costs.	25,720,000	-	5,000	25,715,000	260,000
General Obligation Bonds, Series of 2002, 5.4% - 6.0% interest payable through 2015. Proceeds were used to redeem City's General Obligation Bonds, Second Series of 1992.	16,077,960	-	2,851,777	13,226,183	1,835,119
General Obligation Note, Series of 2005, 3.0% - 3.75% interest payable through 2019. Proceeds of the notes were used to advance refund the General Obligation Bonds, Second Series of 1998.	12,481,462	-	(823,941)	13,305,403	57,800
Federally Taxable General Obligation Bonds, Series of 2006, 4.85% - 5.42% interest payable through 2031. Proceeds of the notes were used to fund the City's unfunded pension fund actuarial accrued liabilities.	-	48,740,000	-	48,740,000	890,000
Line of Credit General Obligation Note, Series of 2006 with a maximum principal amount of \$8,000,000 to be drawn, 7% interest payable through 2029. Proceeds of the note were used to fund capital improvements.	-	1,590,584	-	1,590,584	5,000
Guaranteed Lease Revenue Bonds, Series of 2003 (Redevelopment Authority) with 2.50% - 4.25% interest payable through 2033. Proceeds used to finance construction of public works facility.	3,985,000	-	90,000	3,895,000	90,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G - LIABILITIES - CONTINUED

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>	<u>Due Within One Year</u>
Governmental Activities					
<u>Bonds Payable</u>					
Federally Taxable Guaranteed Lease Revenue Notes, Series of 2006 (Redevelopment Authority) with 6.10% interest payable through 2026. Proceeds used to finance the City's 2006 pension costs.	-	6,475,000	-	6,475,000	151,939
TOTAL	67,458,792	56,805,584	2,889,436	121,374,940	3,973,358
Less: unamortized interest on Capital Appreciation Bonds	(11,060,131)	-	(265)	(11,059,866)	(24,510)
Total Governmental Activities	\$ 56,398,661	\$ 56,805,584	\$ (2,889,171)	\$ 110,315,074	\$ 3,948,848
Business-Type Activities					
<u>Bonds and Notes Payable</u>					
General Obligation Bonds, Series of 2002, 5.4% - 6.0% interest, payable through 2015. Proceeds were used to redeem City's General Obligation Bonds, Second Series of 1992.	\$ 10,362,040	\$ -	\$ 758,223	\$ 9,603,817	\$ 1,969,881
General Obligation Note, Series of 2005, 3.0% - 3.75% interest, payable through 2019. Proceeds of the notes were used to advance refund General Obligation Bonds, Series of 1998.	3,318,538	-	1,503,941	1,814,597	372,200
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1% payable through 2012.	7,915,910	-	1,270,628	6,645,282	1,283,393
1998 Obligation under agreement with York General Authority - Adjustable rate pooled revenue bonds, with interest payable monthly calculated based on the Weekly Interest Rate payable through 2010.	13,395,630	-	2,453,400	10,942,230	2,566,500
Line of Credit General Obligation Note, Series of 2006 with a maximum principal amount of \$25,000,000 to be drawn at a floating rate at 68% of one-month LIBOR plus 1.5% interest payable through 2008. Proceeds of the note were used to fund sewer capital improvements.	-	77,710	-	77,710	-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G - LIABILITIES - CONTINUED

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>	<u>Due Within One Year</u>
Business-Type Activities					
<u>Bonds and Notes Payable - continued</u>					
Note payable to bank with interest at a variable rate (0.9765% at December 31, 2003). Interest and principal payments due quarterly through 2011.	\$ 439,467	\$ -	\$ 75,224	\$ 364,243	\$ 79,008
Note payable to Pennsylvania Infrastructure Investment Authority, 3.2% - 4% interest payable through 2018.	2,102,520	-	139,357	1,963,163	145,031
Guaranteed Water Revenue Bonds, Series of 2002, 1.4% - 4.4% interest payable through 2017.	2,620,000	-	180,000	2,440,000	185,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020.	21,080,000	-	-	21,080,000	-
	<u>61,234,105</u>	<u>77,710</u>	<u>6,380,773</u>	<u>54,931,042</u>	<u>6,601,013</u>
Less: unamortized interest on Capital Appreciation Bonds	<u>(7,821,246)</u>	<u>-</u>	<u>(559,606)</u>	<u>(7,261,640)</u>	<u>-</u>
TOTAL	<u>\$ 53,412,859</u>	<u>\$ 77,710</u>	<u>\$ 5,821,167</u>	<u>\$ 47,669,402</u>	<u>\$ 6,601,013</u>
<u>Component Unit:</u>					
Revenue Bonds Payable					
Guaranteed Authority Revenue Bonds, Series of 1993. The bonds were current interest and capital appreciation bonds (CAB). In 2003, \$9,550,000 of remaining current interest bonds were refunded. The remaining CABs have imputed interest of 5.85% to 6.10%. Final payment is due in 2020.	\$ 38,615,000	\$ -	\$ -	\$ 38,615,000	\$ 2,765,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE G - LIABILITIES - CONTINUED

<u>Component Unit:</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>	<u>Due Within One Year</u>
Revenue Bonds Payable					
Guaranteed Authority Revenue Bonds, Series of 2003 used to refund remaining current interest bonds of the Series of 1993. Interest is at 2% payable through 2006.	2,710,000	-	2,710,000	-	-
Total	41,325,000	-	2,710,000	38,615,000	2,765,000
Less: unamortized interest on Capital Appreciation Bonds	(14,635,593)	-	(1,664,197)	(12,971,396)	-
Deferred loss on early retirement of debt	(4,081,973)	-	(21,319)	(4,060,654)	-
Unamortized bond discount	16,857	-	16,857	-	-
	22,624,291	-	1,041,341	21,582,950	2,765,000
<u>Component Unit</u>					
<u>Other Long-Term Debt</u>					
Guaranteed Parking Revenue note payable to a local bank for \$1,570,000. \$44,250 was drawn on the note as of December 31, 2006, and the balance will be drawn as needed to pay construction expenses. The note is 4.3% per annum through 2014, and repayment is in 2024.	-	44,250	-	44,250	-
Guaranteed Parking Revenue note payable to a local bank for \$10,000,000. \$75,000 was drawn on the note as of December 31, 2004, and the balance will be drawn as needed to pay construction expenses. The note is 70% of the bank's prime rate, and repayment begins in 2006.	2,590,305	7,389,100	5,000	9,974,405	75,000
Note payable to City of Reading which is non-interest bearing with annual principal payments of \$1,000 through 2074.	68,221	-	-	68,221	2,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE G - LIABILITIES - CONTINUED

Component Unit - continued <u>Other Long-Term Debt - continued</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>	<u>Due Within One Year</u>
Loans payable to City of Reading, one of \$375,000 bearing interest at 6.02% with 26 annual payments of \$28,316, including interest and one for \$800,000 non-interest bearing in 30 annual payments of \$26,667. Payment only made when cash flow is available.	800,000	-	-	800,000	-
Capital lease with the City of Reading, whereby the Authority will pay an amount to the City for a term of years coinciding with the Pooled Capital Program of the Washington County Authority.	1,158,719	-	47,100	1,111,619	62,910
Capital lease with the Reading Redevelopment Authority, whereby the Authority will pay \$1,667 monthly to the RRA for a term of 25 years for a parcel of land at 2nd & Washington Streets.	-	220,655	-	220,655	4,867
Total Other Long-Term Debt	<u>4,617,245</u>	<u>7,654,005</u>	<u>52,100</u>	<u>12,219,150</u>	<u>144,777</u>
Total Notes Payable	<u>\$ 27,241,536</u>	<u>\$ 7,654,005</u>	<u>\$ 1,093,441</u>	<u>\$ 33,802,100</u>	<u>\$ 2,909,777</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE G - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2006, are as follows:

	Governmental Activities		Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 3,973,358	\$ 4,676,789	\$ 6,601,013	\$ 1,331,254	\$ 2,924,910	\$ 503,261
2008	4,356,737	4,652,777	6,894,606	1,053,312	2,928,749	500,036
2009	4,609,726	4,520,656	7,097,465	759,566	2,939,495	496,811
2010	4,863,823	4,339,116	7,410,195	454,616	2,950,242	492,941
2011	6,475,200	4,193,482	3,188,009	134,322	2,955,989	489,071
2012 - 2016	41,577,761	21,864,570	13,001,560	228,470	14,734,763	6,395,625
2017 - 2021	23,706,409	15,913,873	10,738,194	4,708	14,488,471	3,249,500
2022 - 2026	14,996,926	7,094,097	-	-	6,243,655	888,600
2027 - 2031	16,365,000	2,868,226	-	-	105,000	-
2032 - 2036	450,000	28,900	-	-	5,000	-
2037 - 2041	-	-	-	-	5,000	-
2042 - 2046	-	-	-	-	5,000	-
2047 - 2051	-	-	-	-	5,000	-
2052 - 2056	-	-	-	-	5,000	-
2057 - 2061	-	-	-	-	5,000	-
2062 - 2066	-	-	-	-	5,000	-
2067 - 2071	-	-	-	-	5,000	-
2072 - 2074	-	-	-	-	2,221	-
Unscheduled	-	-	-	-	800,000	-
Less capital lease interest	-	-	-	-	(279,345)	-
	<u>\$ 121,374,940</u>	<u>\$ 70,152,486</u>	<u>\$ 54,931,042</u>	<u>\$ 3,966,248</u>	<u>\$ 50,834,150</u>	<u>\$ 13,015,845</u>

NOTE H - DERIVATIVE FINANCIAL INSTRUMENTS

Objective of the Derivative

The City uses derivative financial instruments to manage the risk that changes in interest rates will affect the amount of future interest payments.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE H - DERIVATIVE FINANCIAL INSTRUMENTS - CONTINUED

Terms, Fair Values and Credit Risk

The terms, including the credit ratings of the outstanding swaps (swaptions) as provided by the counterparty as of December 31, 2006 are included in the following table.

Product Type/ Original Notional	Outstanding Notional	Effective Date	Maturity Date	Underlying Index	Market Value
Active SWAP (USD 18,595,000.00)	\$ 18,595,000	05/15/2005	11/15/2019	USD/Floating - 68% of 30 day Libor + 20 basis pts USD/Floating/BMA/1W	\$ (107,324)
SWAP (USD 15,800,000.00)	15,120,000	09/15/2005	11/15/2016	USD/Floating - 58% of 30 day Libor USD/Floating/BMA/1W	(344,982)
SWAP (USD 18,595,000.00)	18,595,000	05/15/2006	11/15/2019	USD/Floating - CMS 5YR USD/Floating - 68% of 30 day Libor	(200,999)
SWAP (USD 15,800,000.00)	15,120,000	05/15/2006	11/15/2016	USD/Floating - CMS 5YR USD/Floating - 58% of 30 day Libor	(143,314)
SWAP (USD 21,080,000.00)	21,080,000	07/01/2005	11/01/2020	USD/Floating - 67% of 30 day Libor USD/Floating/BMA/1W	(207,199)
SWAP (USD 21,080,000.00)	21,080,000	06/01/2006	11/01/2020	USD/Floating - CMS 5YR USD/Floating - 67% of 30 day Libor	(188,494)
Not Active SWAPTION (USD 18,595,000.00)	-	5/15/2012	11/15/2019	USD/Floating/BMA/1W USD/Fixed 5.097%	(547,730)
SWAPTION (USD 14,454,017.00)	14,275,163	12/15/2004	5/15/2012	USD/FIXED/3.25 vs. USD/Floating/BMA/1W	(252,514)
SWAP (USD 28,575,000.00)	22,830,000	1/15/2005	11/15/2015	USD/FIXED/3.25 vs. USD/Floating/BMA/1W	(195,119)
SWAP (USD 25,000,000.00)	-	11/3/2009	11/1/2029	USD/Floating - 72% of 30 days Libor USD/Fixed 5.35	(3,515,116)
SWAP (USD 50,000,000.00)	-	11/6/2008	11/1/2033	USD/Floating - 72% of 30 day Libor USD/Fixed 4.848	(4,846,402)

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE H - DERIVATIVE FINANCIAL INSTRUMENTS - CONTINUED

Market Value

The market values as of December 31, 2006 are included in the table. The market values were estimated by using a calculated mathematical approximation of market value derived from proprietary models as of a given date.

Credit risk

The City is exposed to credit risk in the amount of the derivatives fair value. At the present time since the swaps have negative values, the City is not exposed to credit risk. The current credit rating of Wachovia Bank, the counter party, is Aa2, AA-, and AA- by Moody's, Standard and Poor's and Fitch, respectively.

Basis risk

Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the counterparty.

Tax risk

Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving a percentage of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk

The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I - CITY OF READING RETIREMENT PLANS

The City of Reading has three contributing defined benefit single-employer pension plans covering police, paid firemen, and officers and employees respectively; the City of Reading Police Pension Plan (PPP), the City of Reading Paid Firemen's Pension Plan (PFPP) and the City of Reading Non-Uniformed Employees' Pension Plan (NEPP). The Plans are considered part of the City's financial reporting entity and are included in the City's financial statements as Pension Trust Funds.

A. Summary of Significant Accounting Policies

Basis of Accounting - The City's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contribution. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

B. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following as of the date of the latest actuarial valuation:

	<u>1/1/2005</u> <u>PPP</u>	<u>1/1/2005</u> <u>PFPP</u>	<u>1/1/2005</u> <u>NEPP</u>
Retirees and beneficiaries receiving benefits	203	79	304
Terminated plan members entitled to but not yet receiving benefits	-	-	-
Active plan members	<u>200</u>	<u>147</u>	<u>320</u>
Total	<u>403</u>	<u>226</u>	<u>624</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE I - CITY OF READING RETIREMENT PLANS - CONTINUED

Police Pension Plan (PPP)

Plan Description. PPP is a single-employer defined benefit pension plan that covers all full-time members of the police force. Normal retirement, disability and death benefits are provided by ordinance. PA Act 205 and City Council ordinances assign the authority to establish and amend the benefit provisions of the plan. Revisions to the plan increased the maximum monthly benefit to \$500, plus added a drop program.

Contributions. Plan members are required to contribute 5% of base pay plus \$1.00 per month. Required total contributions to the Plan are amounts equal to the Minimum Municipal Obligation under PA Act 205 Contribution. The total amount required for 2006 is \$3,496,057. This obligation may be met by contributions provided by state aid, the city or employee contributions.

Paid Firemen's Pension Plan (PFPP)

Plan Description. PFPP is a contributory defined benefit single-employer pension plan that covers all full-time members of the Bureau of Fire. Normal retirement, disability and death benefits are provided by ordinance. PA Act 205 and city council ordinance assign the authority to establish and amend the benefit provisions of the plan.

Contributions. Plan members are required to contribute 5% of pay plus \$5.00 per month. Member contributions are not credited with interest. Total contributions to the Plan are at least equal to the Minimum Municipal Obligation and PA Act 205. This obligation may be met by contributions provided by state aid, the city or employee contributions. Administrative costs of PFPP are added to the annual financial requirement of the Plan. The total amount required for 2006 is \$1,268,949.

Non-Uniformed Employees' Pension Plan (NEPP)

Plan Description. NEPP is a single-employer defined benefit pension plan that covers all non-uniformed officers and employees that are eligible for membership provided that mandatory employee contributions are made. Normal retirement, early disability and death benefits are provided by ordinance. PA Act 205 and City Council ordinance assign the authority to establish and amend the benefit provisions of the plan.

Contributions. Plan members are required to contribute 3% of base pay. Required total contributions to the plan are at least the Minimum Municipal Obligation under PA Act 205. This total for 2006 is \$1,650,339. This required contribution may be met by state aid, the city, or employee contributions.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2006

NOTE I - CITY OF READING RETIREMENT PLANS - CONTINUED

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation for the current year was as follows:

	<u>PPP</u>	<u>PFPP</u>	<u>NEPP</u>
Annual required contribution	\$ 3,496,057	\$ 1,268,949	\$ 1,650,339
Interest on net pension obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual pension cost	3,496,057	1,268,949	1,650,339
Contribution made	<u>3,496,057</u>	<u>1,268,949</u>	<u>1,650,339</u>
Increase (decrease) in net pension obligation	-	-	-
Net pension obligation at beginning of year	-	-	-
Net pension obligation at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Annual Required Contributions

Actuarial assumption and other information used to determine the annual required contributions (ARC) for all plans are located in the Required Supplementary Information section of this report.

NOTE J - POST-EMPLOYMENT BENEFITS

The City provides certain healthcare benefits for retired employees. All full-time police and fire employees may be eligible for benefits if actively employed by the City immediately prior to retirement. The benefits, which differ for police and fire employees, are provided in accordance with labor agreements. The cost of the post-employment benefits is recognized as an expenditure at the time it is paid. These post-employment benefits totaled \$1,232,922 in 2006

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE K - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the City is subject to various contingent liabilities arising from litigation. The City does not anticipate future losses resulting from these transactions to be material to the City's financial statements, except as disclosed in Note N.

Under the terms of federal and state grants, periodic audits are required and the allowability of certain costs may be questioned under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes such disallowances, if any, will be immaterial.

The City has in effect three labor agreements, which cover 81% of the total labor force. The collective bargaining agreement with AFSCME - The American Federation of State, County and Municipal Employees will be in effect through December 31, 2007. The Reading Lodge #9 Fraternal Order of Police's labor agreement will be in effect through December 31, 2011. The labor agreement with the International Association of Fire Fighters, Local 1803 expired on December 31, 2005, and an extension has been finalized through December 31, 2010.

NOTE L - RISK MANAGEMENT AND SELF-INSURANCE

The City is exposed to various risks of losses related to torts; theft, damage, destruction of assets, errors and omissions; injuries to employees, and natural disasters. The City manages these risks through self-insurance and coverage from commercial insurance companies for excess liabilities. The table below outlines the limits and deductibles for these lines of coverage:

	Carrier	2006	
		Limit	Deductible
Property	St. Paul Travelers	\$ 204,070,577	\$ 100,000
Liability	St. Paul Travelers	1,000,000	150,000
Crime	St. Paul Travelers	1,000,000	10,000
Auto Liability	St. Paul Travelers	1,000,000	150,000
Auto Property Damage	St. Paul Travelers	10,577,500	10,000
Excess Liability	St. Paul Travelers	4,000,000	10,000
Law Enforcement	Lexington	1,000,000	150,000
Employment Practices	AIG	1,000,000	150,000
Public Officials	AIG	1,000,000	50,000

The City of Reading is recognized and meets the qualifications of the Pennsylvania Department of Labor and Industry as a Self Insured Workers' Compensation Employer. As part of the qualifications to maintain self insured status, the City of Reading purchases excess workers' compensation coverage for claims that exceed \$400,000. This insurance policy is underwritten by Safety National Casualty Corporation. The City also is required to maintain a trust for outstanding liabilities for workers' compensation. That trust is in the amount of \$1,493,264.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE L - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

Activity of the self-insurance program including liability exposure is accounted for in the Self-Insurance Internal Service Fund (the Fund). The Fund is responsible for collecting interfund premiums, paying claim settlements and purchasing other specified insurance policies. Claims settled and loss expense are accrued in the Fund for estimated reported claims. This fund has a net asset balance of \$120,000 reserved for a sick leave pool.

The City had an actuarial study performed to estimate the workers' compensation liability. Based on past experience, management of the City believes incurred, but not reported claims to be immaterial and therefore has not established an accrual for such claims at December 31, 2006. An analysis of claims activity is presented below:

	Beginning of Year Liabilities	Estimated Current Year Claims	Actual Claim Payments	Balance at Fiscal Year End
2006	\$ 1,998,528	\$ 3,612,156	\$ 3,036,365	\$ 2,574,319

Employee Benefit

The City pays premiums for certain employee benefits such as health and life insurance, in accordance with stipulations of collective bargaining agreements. Such expenditures are not accounted for through the self-insurance fund, but rather are allocated to the particular fund that record the related payroll expenditures. Total expense for these employee benefits for the year ended December 31, 2006 was \$7,689,819.

NOTE M - FUND EQUITY AND CHANGE IN FUND BALANCES

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reserve for capital projects - It includes \$10,135,536, of monies in the Capital Projects Fund for reserved capital project improvements.

Reserve for debt service - The reserve for debt service was created to segregate a portion of the fund balance account for debt service, including both principal payments and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE N - SETTLEMENTS

NPDES Permit Violations

The City has negotiated a settlement with the U.S. Environmental Protection Agency (EPA) and the Commonwealth of Pennsylvania Department of Environmental Protection (PADEP) regarding alleged violations of the Clean Water Act and the Clean Streams Law. The City is required to pay a total civil penalty of \$239,000 to EPA and PADEP within one year of the date of entry of the consent decree. Additional penalties are stipulated for failure to comply with the terms of the consent decree. Also, the City is required to implement supplemental environmental projects (SEP's) at a minimum cost of \$733,000.

In 2002, an expense and related liability of \$750,000 was recorded in the sewer fund. Most of the liability remains outstanding at December 31, 2006, and will be satisfied as the costs described above are incurred.

Civil penalty	\$ 239,000
SEP expenses	733,000
	<u>972,000</u>
Expense paid	<u>(239,000)</u>
Estimated expense still outstanding	<u>\$ 733,000</u>

Litigation Settlement

The City approved settling a federal lawsuit for an amount of \$750,000, payable in three annual installments due December 2007, 2008, and 2009.

NOTE O - NEW ACCOUNTING STANDARDS

The Government Accounting Standards Board has issued Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans and Statement No. 45, Accounting and Financial Reporting by Employees for Post-Employment Benefit Plans Other than Pension Plans both of which are effective in future years. These statements require the City to address estimated post-employment liabilities and their respective accounting treatment. The City is required to implement Statements No. 43 and 45 by the year ended December 31, 2008. The City has not yet determined the full impact that adoption of GASB Statement No. 43 and 45 will have on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF READING
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
Year Ended December 31, 2006

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Real estate taxes	\$ 15,029,598	\$ 15,029,598	\$ 15,154,040	\$ 124,442
Act 511 taxes	15,652,326	15,652,326	18,361,127	2,708,801
Licenses, permits and fines	4,628,133	4,628,133	4,605,039	(23,094)
Intergovernmental	5,159,813	5,159,813	5,469,630	309,817
Charges for services	4,344,425	4,344,425	5,404,246	1,059,821
Interest and rent	2,627,000	2,627,000	1,493,663	(1,133,337)
Other	2,346,251	2,346,251	2,191,847	(154,404)
TOTAL REVENUES	49,787,546	49,787,546	52,679,592	2,892,046
Expenditures:				
Current:				
General government	7,224,697	7,257,697	7,219,098	38,599
Public safety				
Police	23,303,496	23,303,496	24,447,227	(1,143,731)
Fire	9,813,501	9,843,501	10,232,975	(389,474)
EMS	3,075,470	3,075,470	3,128,181	(52,711)
Public works: highways and streets	1,336,270	1,336,509	1,420,290	(83,781)
Public works: other	5,936,975	5,945,537	6,611,301	(665,764)
Community development	465,356	465,356	389,100	76,256
Culture and recreation	1,428,899	1,428,899	1,268,824	160,075
Payments to fund pension obligation	-	-	47,474,680	(47,474,680)
Other	1,285,962	1,349,162	491,172	857,990
Debt service - principal	2,082,586	2,082,586	2,794,436	(711,850)
Debt service - interest	2,469,500	2,469,500	2,072,810	396,690
Debt service - costs	-	-	1,323,375	(1,323,375)
TOTAL EXPENDITURES	58,422,712	58,557,713	108,873,469	(50,315,756)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,635,166)	(8,770,167)	(56,193,877)	(47,423,710)
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of operating debt	-	-	55,215,000	55,215,000
Proceeds from interest rate swap options	2,897,215	2,897,215	4,500,397	1,603,182
Operating transfers in	7,695,000	7,695,000	7,848,278	153,278
Operating transfers out	(1,579,336)	(1,579,336)	(1,806,079)	(226,743)
TOTAL OTHER FINANCING SOURCES (USES)	9,012,879	9,012,879	65,757,596	56,744,717
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 377,713	\$ 242,712	9,563,719	\$ 9,321,007
FUND BALANCE (ACCUMULATED DEFICIT), BEGINNING OF YEAR			(1,091,574)	
FUND BALANCE, END OF YEAR			\$ 8,472,145	

CITY OF READING
 REQUIRED SUPPLEMENTARY INFORMATION
 (UNAUDITED)
 SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

December 31, 2006

I. SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
POLICE PENSION FUND						
01/01/99	\$ 48,632,388	\$ 47,914,322	\$ (718,066)	101.5%	\$ 9,099,085	(7.9%)
01/01/01	52,816,740	52,342,305	(474,435)	100.9%	8,346,587	(5.7%)
01/01/03	43,823,323	58,403,692	14,580,369	75.0%	9,656,468	151.02%
01/01/05	48,078,705	68,124,235	20,045,530	70.6%	10,069,858	199.06%
PAID FIREMEN'S PENSION FUND						
01/01/97	25,996,195	23,538,748	(2,457,447)	110.4%	4,347,120	(56.5%)
01/01/99	32,269,808	26,523,695	(5,746,113)	121.7%	4,808,156	(119.5%)
01/01/01	37,012,361	29,878,839	(7,133,522)	123.9%	4,929,437	(144.7%)
01/01/03	29,346,110	34,142,374	4,796,264	86.0%	7,147,263	67.1%
01/01/05	35,284,932	39,418,713	4,133,781	89.5%	8,026,617	51.5%
OFFICERS' AND EMPLOYEES' PENSION FUND						
01/01/97	35,776,381	40,166,030	(4,389,649)	89.07%	11,326,144	(38.8%)
01/01/99	44,502,941	43,268,444	1,234,497	102.85%	12,270,266	10.1%
01/01/01	46,877,824	41,868,283	5,009,541	111.97%	11,519,580	43.5%
01/01/03	37,290,154	49,181,881	11,261,727	77.10%	12,181,677	(92.4%)
01/01/05	39,767,213	53,054,485	13,287,272	74.96%	11,880,781	111.8%

II. SCHEDULES OF EMPLOYER CONTRIBUTIONS

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2000	\$ 1,108,226	100%
2001	1,107,269	100%
2002	1,267,793	100%
2003	1,581,096	100%
2004	2,583,681	100%
2005	2,497,175	100%
2006	3,496,057	100%
FIREMEN'S PENSION FUND		
1999	390,807	100%
2000	83,533	100%
2001	133,693	100%
2002	318,129	100%
2003	-	100%
2004	-	100%
2005	-	100%
2006	-	100%
OFFICERS' AND EMPLOYEES' PENSION FUND		
1999	655,403	100%
2001	409,870	100%
2003	209,491	100%
2004	1,371,476	100%
2005	1,337,185	100%
2006	1,650,339	100%

CITY OF READING
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED

December 31, 2006

III. Notes to Required Supplementary Information

Budgetary Comparison Schedule

The budgetary comparison schedule for the general fund is prepared using the modified accrual basis of accounting which is the same basis used to report actual expenditures.

The Community Development fund is a major fund but had no legally adopted budget, therefore no schedule is included in this report.

Funding Progress and Employer Contributions

The annual required contribution for the current year was determined using the latest valuation data as follows:

	<u>PPP</u>	<u>PFPP</u>	<u>NEPP</u>
Valuation Date	01/01/05	01/01/05	01/01/05
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Dollar	Level Dollar
Asset Valuation Method	Market Value	Market value as Determined by Trustees	Fair Market Value
Actuarial Assumptions			
Investment rate of return	8%	8%	8%
Projected salary increases	5%	6%	5%
Includes inflation - at	-	Included in rates above	3%
Cost of living adjustment	-	-	-

SUPPLEMENTARY INFORMATION

CITY OF READING

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

Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance
REAL ESTATE TAXES	\$ 15,029,598	\$ 15,029,598	\$ 15,154,040	\$ 124,442
ACT 511 Taxes				
Per capita tax	90,000	90,000	36,297	(53,703)
Per capita tax - prior years	20,000	20,000	10,626	(9,374)
Real estate transfer tax	4,760,000	4,760,000	6,883,139	2,123,139
Earned income tax	7,852,326	7,852,326	8,058,263	205,937
Occupation tax	1,450,000	1,450,000	1,523,557	73,557
Occupation tax - prior years	15,000	15,000	224,173	209,173
Business privilege tax	1,290,000	1,290,000	1,385,335	95,335
Business privilege tax - prior years	175,000	175,000	239,737	64,737
Total Act 511 Taxes	15,652,326	15,652,326	18,361,127	2,708,801
LICENSES, PERMITS AND FINES				
Food permits	50,000	50,000	49,821	(179)
Building and electrical	670,500	670,500	922,811	252,311
Trash truck license fees	15,000	15,000	720	(14,280)
Trades licenses	199,000	199,000	103,520	(95,480)
Business privilege	300,000	300,000	209,947	(90,053)
Street and pavement	28,000	28,000	78,219	50,219
Zoning and land development	95,000	95,000	93,411	(1,589)
Housing	825,000	825,000	754,277	(70,723)
Tax administration licenses	19,133	19,133	15,723	(3,410)
Franchise fees	770,000	770,000	684,296	(85,704)
No parking signs	3,000	3,000	4,708	1,708
Traffic fines	360,000	360,000	492,120	132,120
Penalties and interest	56,500	56,500	101,627	45,127
District court	750,000	750,000	740,385	(9,615)
Pre-settlement inspection fee	260,000	260,000	296,350	36,350
Other	227,000	227,000	57,104	(169,896)
Total Licenses, Permits and Fines	4,628,133	4,628,133	4,605,039	(23,094)
INTERGOVERNMENTAL				
Payments in lieu of taxes	100,000	100,000	149,750	49,750
Malt and liquor tax	45,000	45,000	53,750	8,750
Public utility tax	40,000	40,000	51,455	11,455
Snow and ice control	50,000	50,000	44,777	(5,223)
Reading Public Library	1,034,047	1,034,047	930,077	(103,970)
School guard	235,000	235,000	209,945	(25,055)
Pension - state aid	3,046,766	3,046,766	3,205,886	159,120
Volunteer fire relief aid	-	-	91,136	91,136
Police training	118,000	118,000	139,208	21,208
Grant reimbursement - police	435,000	435,000	525,092	90,092
Grant reimbursement - public works	56,000	56,000	68,554	12,554
Total Intergovernmental	5,159,813	5,159,813	5,469,630	309,817

CITY OF READING

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

Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
Recreational facilities	55,000	55,000	48,982	(6,018)
Swimming pool	43,000	43,000	42,149	(851)
Pagoda and tower	250	250	362	112
School district tax collection	424,800	424,800	633,481	208,681
Tax certifications	72,000	72,000	84,594	12,594
Admissions fee/tax	625,000	625,000	563,918	(61,082)
Police services	302,200	302,200	376,185	73,985
Fire services	215,675	215,675	319,599	103,924
Ambulance services	2,293,300	2,293,300	3,048,191	754,891
Housing Authority	162,500	162,500	108,787	(53,713)
Redevelopment Authority	18,000	18,000	18,000	-
Public works	74,250	74,250	81,721	7,471
Other	58,450	58,450	78,277	19,827
Total Charges for Service	4,344,425	4,344,425	5,404,246	1,059,821
INTEREST AND RENT				
Interest on investments	200,000	200,000	605,118	405,118
CD bond interest	175,000	175,000	263,478	88,478
Stadium rental	22,000	22,000	22,000	-
Building rental	65,000	65,000	60,440	(4,560)
Parking Authority	1,890,000	1,890,000	465,602	(1,424,398)
Greater Berks	275,000	275,000	77,025	(197,975)
Total Interest and Rent	2,627,000	2,627,000	1,493,663	(1,133,337)
OTHER				
Sale of city property	90,001	90,001	92,073	2,072
Refund of prior year expenses	20,000	20,000	1,507	(18,493)
Telephone commissions	1	1	1	-
Recovery of damages	55,000	55,000	78,072	23,072
Indirect cost reimbursement:				
Community development	248,871	248,871	243,280	(5,591)
Recycling	100,842	100,842	71,548	(29,294)
Sewer	638,035	638,035	687,125	49,090
Water	580,000	580,000	438,385	(141,615)
Direct cost reimbursement - law	30,000	30,000	-	(30,000)
Direct cost reimbursement - planning	20,000	20,000	-	(20,000)
Direct cost reimbursement - code services	250,000	250,000	270,854	20,854
Direct cost reimbursement - community development	105,000	105,000	67,480	(37,520)
Direct cost reimbursement - pension	26,250	26,250	32,500	6,250
Direct cost reimbursement - sewer	130,001	130,001	23,567	(106,434)
Grants and gifts	-	-	86,965	86,965
Other shared revenues	-	-	65,850	65,850
Miscellaneous	52,250	52,250	32,640	(19,610)
Total Other	2,346,251	2,346,251	2,191,847	(154,404)
TOTAL REVENUES	49,787,546	49,787,546	52,679,592	2,892,046

CITY OF READING

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

Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance
OTHER FINANCING SOURCES				
Proceeds from issuance of operating debt	-	-	55,215,000	55,215,000
Proceeds from interest rate swap contract	2,897,215	2,897,215	4,500,397	1,603,182
Operating transfers in:				
1985 Bond Fund	-	-	16,380	16,380
Capital Reserve City	20,000	20,000	19,337	(663)
General Agency Fund	15,000	15,000	8,223	(6,777)
Water Fund	3,160,000	3,160,000	3,304,338	144,338
Sewer Fund	4,500,000	4,500,000	4,500,000	-
Total Other Financing Sources	<u>10,592,215</u>	<u>10,592,215</u>	<u>67,563,675</u>	<u>56,971,460</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 60,379,761</u>	<u>\$ 60,379,761</u>	<u>\$ 120,243,267</u>	<u>\$ 59,863,506</u>

CITY OF READING

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

Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personal services	\$ 207,367	\$ 207,367	\$ 190,614	\$ 16,753
Other operating expenditures	33,490	33,490	25,384	8,106
City Council				
Personal services	230,341	230,341	209,554	20,787
Other operating expenditures	88,773	88,773	38,724	50,049
City Auditor				
Personal services	128,060	128,060	117,509	10,551
Other operating expenditures	3,365	3,365	-	3,365
Office of the Managing Director				
Personal services	2,556,056	2,527,716	2,522,402	5,314
Other operating expenditures	873,336	934,676	870,750	63,926
Department of Finance:				
Treasury				
Personal services	198,768	198,248	192,171	6,077
Other operating expenditures	12,748	13,268	11,827	1,441
Office of the Director				
Personal services	289,029	289,029	288,459	570
Other operating expenditures	2,000	2,000	2,939	(939)
Purchasing				
Personal services	56,779	56,779	56,381	398
Other operating expenditures	306,976	306,976	308,753	(1,777)
Accounting				
Personal services	287,148	278,815	272,251	6,564
Other operating expenditures	2,880	11,213	11,458	(245)
Tax Administration				
Personal services	754,407	754,407	712,994	41,413
Other operating expenditures	146,808	161,308	213,998	(52,690)
Mailroom				
Personal services	23,994	23,994	15,541	8,453
Other operating expenditures	163,000	148,500	114,684	33,816
Information Technology				
Personal services	-	-	27,387	(27,387)
Other operating expenditures	-	-	31	(31)
Budget Administration				
Personal services	35,411	35,411	21,544	13,867
Other operating expenditures	964	964	193	771
Department of Human Resources				
Personal services	230,900	230,900	319,524	(88,624)
Other operating expenditures	81,851	81,851	69,958	11,893
Department of Law				
Personal services	275,613	275,613	262,592	13,021
Other operating expenditures	234,633	234,633	341,476	(106,843)
TOTAL GENERAL GOVERNMENT	7,224,697	7,257,697	7,219,098	38,599

CITY OF READING

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

Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance
PUBLIC WORKS				
Department of Public Works:				
Fleet Management				
Personal services	586,747	586,747	532,742	54,005
Other operating expenditures	614,036	613,500	795,105	(181,605)
Traffic Engineering				
Personal services	347,046	347,720	281,022	66,698
Other operating expenditures	384,642	383,511	361,894	21,617
Public Works Administration				
Personal services	142,163	145,595	164,967	(19,372)
Other operating expenditures	262,432	259,000	256,458	2,542
Engineering				
Personal services	141,755	142,430	267,081	(124,651)
Other operating expenditures	6,964	6,081	1,946	4,135
Streets				
Personal services	1,057,110	1,045,220	1,149,657	(104,437)
Other operating expenditures	279,160	291,289	270,633	20,656
Parks				
Personal services	892,828	896,010	996,758	(100,748)
Other operating expenditures	109,247	107,106	111,551	(4,445)
Recreation				
Personal services	587,892	607,245	651,868	(44,623)
Other operating expenditures	68,753	49,400	58,312	(8,912)
Public Property				
Personal services	601,974	602,602	555,707	46,895
Other operating expenditures	1,190,496	1,198,590	1,575,890	(377,300)
TOTAL PUBLIC WORKS	7,273,245	7,282,046	8,031,591	(749,545)
PUBLIC SAFETY				
Police - Criminal Investigation				
Personal services	4,294,459	4,294,459	5,000,658	(706,199)
Other operating expenditures	132,566	132,566	111,615	20,951
Police - Special Services				
Personal services	2,022,428	2,022,428	2,187,678	(165,250)
Other operating expenditures	354,591	357,376	284,804	72,572
Police - Patrol				
Personal services	15,435,238	15,435,238	15,723,909	(288,671)
Other operating expenditures	262,140	249,355	192,500	56,855
Police - Administration				
Personal services	700,952	700,952	858,843	(157,891)
Other operating expenditures	101,122	111,122	87,220	23,902
Fire Administration				
Personal services	570,649	578,869	577,629	1,240
Other operating expenditures	57,854	62,634	144,443	(81,809)
Fire Special Services				
Personal services	258,720	258,720	209,079	49,641
Other operating expenditures	70,255	70,255	67,473	2,782
Fire Suppression				
Personal services	8,621,546	8,612,246	9,000,351	(388,105)
Other operating expenditures	234,477	260,777	234,000	26,777
Fire EMS				
Personal services	2,511,427	2,501,427	2,559,327	(57,900)
Other operating expenditures	564,043	574,043	568,854	5,189
TOTAL PUBLIC SAFETY	36,192,467	36,222,467	37,808,383	(1,585,916)

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CITY OF READING

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

Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance
COMMUNITY DEVELOPMENT				
Planning				
Personal services	235,768	235,768	129,257	106,511
Other operating expenditures	39,736	39,736	64,575	(24,839)
Codes				
Personal services	149,023	149,023	174,287	(25,264)
Other operating expenditures	40,829	40,829	20,981	19,848
TOTAL COMMUNITY DEVELOPMENT	465,356	465,356	389,100	76,256
CULTURE AND RECREATION				
Library				
Personal services	1,298,682	1,298,682	1,176,411	122,271
Other operating expenditures	130,217	130,217	92,413	37,804
Civic Contributions				
Other operating expenditures	-	-	-	-
TOTAL CULTURE AND RECREATION	1,428,899	1,428,899	1,268,824	160,075
DEBT SERVICE				
Principal	2,082,586	2,082,586	2,794,436	(711,850)
Interest	2,469,500	2,469,500	2,072,810	396,690
Issuance costs	-	-	1,323,375	(1,323,375)
TOTAL DEBT SERVICE	4,552,086	4,552,086	6,190,621	(1,638,535)
NON-DEPARTMENTAL				
Payroll and benefits	100,000	100,000	179,808	(79,808)
Payment to fund pension obligation	-	-	47,474,680	(47,474,680)
Other	1,185,962	1,249,162	311,364	937,798
TOTAL NON-DEPARTMENTAL	1,285,962	1,349,162	47,965,852	(46,616,690)
TOTAL EXPENDITURES	58,422,712	58,557,713	108,873,469	(50,315,756)
OTHER FINANCING USES				
Transfers to other funds	1,579,336	1,579,336	1,806,079	(226,743)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 60,002,048	\$ 60,137,049	\$110,679,548	\$ (50,542,499)

CITY OF READING

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

December 31, 2006

	Redevelopment Authority	Agency Fund	Liquid Fuels Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 20,386	\$ 2,361,663	\$ 1,291,433	\$ 3,673,482
Investments	740,436	209,223	-	949,659
Accounts receivable	1,095	401,911	-	403,006
Interfund receivables	130,615	598,060	(273,246)	455,429
Restricted assets - cash and investments	53	-	-	53
TOTAL ASSETS	<u>\$ 892,585</u>	<u>\$ 3,570,857</u>	<u>\$ 1,018,187</u>	<u>\$ 5,481,629</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 64,527	\$ 33,971	\$ 86,468	\$ 184,966
Interfund payables	401,981	1,873,578	610,103	2,885,662
Deferred revenue	-	976,957	-	976,957
TOTAL LIABILITIES	466,508	2,884,506	696,571	4,047,585
FUND BALANCES				
Unreserved	426,077	686,351	321,616	1,434,044
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 892,585</u>	<u>\$ 3,570,857</u>	<u>\$ 1,018,187</u>	<u>\$ 5,481,629</u>

CITY OF READING

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS

Year Ended December 31, 2006

	Redevelopment Authority	Agency Fund	Liquid Fuels Fund	Totals
REVENUES				
Intergovernmental	\$ -	\$ 7,061,282	\$ 1,226,188	\$ 8,287,470
Interest and rent	62,254	238,278	4,651	305,183
Other	16,861	-	-	16,861
TOTAL REVENUES	79,115	7,299,560	1,230,839	8,609,514
EXPENDITURES				
Public safety				
Police	-	736,512	-	736,512
Fire	-	158,966	-	158,966
Public works - highways and streets	-	-	1,100,169	1,100,169
Public works - other	-	68,554	-	68,554
Community development	-	6,268,743	-	6,268,743
Capital outlays	493,269	-	-	493,269
TOTAL EXPENDITURES	493,269	7,232,775	1,100,169	8,826,213
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(414,154)	66,785	130,670	(216,699)
OTHER FINANCING USES				
Operating transfers out	-	(8,223)	-	(8,223)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(414,154)	58,562	130,670	(224,922)
FUND BALANCES, BEGINNING OF YEAR	840,231	627,789	190,946	1,658,966
FUND BALANCES, END OF YEAR	\$ 426,077	\$ 686,351	\$ 321,616	\$ 1,434,044

CITY OF READING
COMBINING BALANCE SHEET - ALL CAPITAL PROJECTS FUNDS

December 31, 2006

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 1,593,076	\$ (362,339)	\$ 109,932	\$ 1,340,669
Investments	405,218	350,276	-	755,494
Interfund receivable	1,939,397	1,214,385	90,584	3,244,366
Intergovernmental receivable	823,032	-	-	823,032
Notes receivable - noncurrent	4,660,348	-	-	4,660,348
TOTAL ASSETS	<u>\$ 9,421,071</u>	<u>\$ 1,202,322</u>	<u>\$ 200,516</u>	<u>\$ 10,823,909</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ -	\$ 11,298	\$ 17,029	\$ 28,327
Interfund payables	195,347	461,563	3,136	660,046
FUND BALANCES				
Reserved for capital project	<u>9,225,724</u>	<u>729,461</u>	<u>180,351</u>	<u>10,135,536</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,421,071</u>	<u>\$ 1,202,322</u>	<u>\$ 200,516</u>	<u>\$ 10,823,909</u>

CITY OF READING

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL CAPITAL PROJECTS FUNDS

Year Ended December 31, 2006

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
REVENUES				
Interest and rent	\$ 19,337	\$ 16,510	\$ -	\$ 35,847
EXPENDITURES				
Capital outlays	13,742	512,332	1,410,233	1,936,307
Debt service - principal	-	5,000	-	5,000
TOTAL EXPENDITURES	<u>13,742</u>	<u>517,332</u>	<u>1,410,233</u>	<u>1,941,307</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,595	(500,822)	(1,410,233)	(1,905,460)
OTHER FINANCING SOURCES (USES)				
Proceeds from note	-	-	1,590,584	1,590,584
Operating transfers in/out	(19,337)	(16,380)	-	(35,717)
EXCESS (DEFICIENCY) OF REVENUES AND FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(13,742)	(517,202)	180,351	(350,593)
FUND BALANCES, BEGINNING OF YEAR	<u>9,239,466</u>	<u>1,246,663</u>	<u>-</u>	<u>10,486,129</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,225,724</u>	<u>\$ 729,461</u>	<u>\$ 180,351</u>	<u>\$ 10,135,536</u>

CITY OF READING

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2006

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Fiduciary Funds
ASSETS				
Cash and cash equivalents	\$ 29,271,053	\$ 8,210,129	\$ 16,610,797	\$ 54,091,979
Investments	<u>48,298,782</u>	<u>38,628,162</u>	<u>41,045,676</u>	<u>127,972,620</u>
TOTAL ASSETS	77,569,835	46,838,291	57,656,473	<u>\$ 182,064,599</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	65,278	52,274	66,543	\$ 184,095
Interfund payable	<u>9,477</u>	<u>5,177</u>	<u>17,846</u>	<u>32,500</u>
TOTAL LIABILITIES	<u>74,755</u>	<u>57,451</u>	<u>84,389</u>	216,595
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
(A schedule of funding progress for each plan is presented on page 50)	<u>\$ 77,495,080</u>	<u>\$ 46,780,840</u>	<u>\$ 57,572,084</u>	181,848,004
TOTAL NET ASSETS AND LIABILITIES				<u>\$ 182,064,599</u>

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2006

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Fiduciary Funds
ADDITIONS				
Contributions				
Member, city and state contributions	\$ 29,542,183	\$ 8,577,788	\$ 17,452,891	\$ 55,572,862
Investment income				
Interest and dividends	2,028,732	1,453,314	516,142	3,998,188
Realized and unrealized gain (loss) on sale of investments	<u>1,466,068</u>	<u>2,288,778</u>	<u>3,098,461</u>	<u>6,853,307</u>
TOTAL ADDITIONS	33,036,983	12,319,880	21,067,494	66,424,357
DEDUCTIONS				
Benefits, including tax withheld	4,004,282	2,119,473	3,400,973	9,524,728
Audit settlement payments	52,600	-	9,493	62,093
Administrative expenses	313,597	190,815	274,342	778,754
Refunds paid	<u>27,381</u>	<u>27,865</u>	<u>116,850</u>	<u>172,096</u>
TOTAL DEDUCTIONS	<u>4,397,860</u>	<u>2,338,153</u>	<u>3,801,658</u>	<u>10,537,671</u>
NET INCREASE	28,639,123	9,981,727	17,265,836	55,886,686
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR				
	<u>48,855,957</u>	<u>36,799,113</u>	<u>40,306,248</u>	<u>125,961,318</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR				
	<u>\$ 77,495,080</u>	<u>\$ 46,780,840</u>	<u>\$ 57,572,084</u>	<u>\$ 181,848,004</u>

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2006

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract
U.S. DEPARTMENT OF HOUSING				
CDBG	D	14.218	01/01/04-12/31/04	B04MC420013
CDBG	D	14.218	01/01/05-12/31/05	B05MC420013
CDBG	D	14.218	01/01/06-12/31/06	B06MC420013
ESG	D	14-231		S05MC420006
ESG	D	14-231		S06MC420006
Economic Development Projects	D	14.246	02/22/02-09/30/07	B00ED420034
Economic Development Projects	D	14.246	01/21/03-01/20/08	B02SPPA0634
Brownfields Economic Development Grant	D	14.926	11/01/02-12/01/07	B02BD420038
HOME Program	D	14.239		M01MC420204
HOME Program	D	14.239		M02MC420204
HOME Program	D	14.239		M03MC420204
HOME Program	D	14-239		M04MC420204
HOME Program	D	14-239		M05MC420204
HOME Program	D	14-239		M06MC420204
Fair Housing	D	14.401	10/01/03-09/30/04	FF203K043012
Fair Housing	D	14.401	10/01/04-09/30/05	FF203K053012
Fair Housing	D	14.401	10/01/05-09/30/06	FF203K063012
TOTAL U.S. DEPT. OF HOUSING				
U.S. DEPARTMENT OF JUSTICE				
Passed through Pennsylvania Commission on Crime and Delinquency				
Sustainability of CTC and Prevention Programs	I	16.548	07/01/05-06/30/06	2004-JT-01-15939
Passed through County of Berks				
Juvenile Accountability Incentive Block Grant Program	I	16.595	10/01/04-09/30/05	2005-WS-Q5-0007
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/04-09/30/08	2005-DJ-BX-0466
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/05-09/30/09	2006-DJ-BX-0287
Bulletproof Vest Partnership	D	16.607	01/01/05-12/31/05	2005
Public Safety Partnership and Community Policing	D	16.710	120/8/04-12/07/07	2005-CK-WX-0217
TOTAL U.S. DEPT. OF JUSTICE				

Total Award	PY Recognized	Accrued (Deferred) 12/31/05	Amount Received	Revenue Recognized	Expenditures	Accrued (Deferred) 12/31/06
\$ 3,756,000	\$ 2,803,753	\$ 673,676	\$ 1,625,923	\$ 952,247	\$ 952,247	\$ -
3,551,366	-	-	3,549,715	3,549,715	3,549,715	-
3,184,221	-	-	126,139	520,772	520,772	394,633
137,383	86,659	70,356	121,080	50,724	50,724	-
136,600	-	-	50,754	51,350	51,350	596
1,418,582	1,397,033	(721,549)	-	401,809	401,809	(319,740)
400,000	56,012	(203,411)	-	343,988	343,988	140,577
1,100,000	762,528	762,528	1,085,028	322,500	322,500	-
930,000	930,000	7,106	7,106	-	-	-
930,000	930,000	156,291	156,291	-	-	-
1,110,896	1,110,896	359,063	296,362	-	-	62,701
1,044,600	581,527	(15,212)	343,914	359,126	359,126	-
1,059,048	-	-	431,595	523,532	523,532	91,937
999,170	-	-	-	-	-	-
158,760	31,752	(18,248)	108,760	127,008	127,008	-
88,330	-	-	88,330	20,157	20,157	(68,173)
102,400	-	-	89,900	-	-	(89,900)
		1,070,600	8,080,897	7,222,928	7,222,928	212,631
50,000	27,778	-	22,222	22,222	22,222	-
33,000	-	(33,000)	-	33,000	33,000	-
144,679	87,097	(57,512)	-	57,512	57,512	-
87,324	-	-	50,000	27,780	27,780	(22,220)
8,210	-	-	8,210	8,210	8,210	-
295,993	11,271	(155,350)	129,372	277,015	277,015	(7,707)
		(245,862)	209,804	425,739	425,739	(29,927)

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2006

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Passed through Pennsylvania Emergency Management Agency				
Public Assistance Grants				
Public Assistance Grant Project #66	I	97.036	07/01/01-12/31/05	FEMA-1383-DR-PA-011-63624-00
Public Assistance Grant Project #2702	I	97.036	11/13/06-12/30/06	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2540	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2663	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2704	I	97.036	11/13/06-12/30/06	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2885	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2901	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2902	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2935	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Fire Prevention and Safety	D	97.044	04/14/05-04/13/06	EMW-2004-FP-02558
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY				
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Brownfield Pilots Cooperative Agreements	D	66.811	10/01/98-10/01/06	BP-99398701-6
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
Equal Employment Opportunity Commission	D	^	10/01/05-09/30/06	5FPSLP0271
TOTAL FEDERAL AWARDS				

^ - It is unknown whether this is federal funding.

Source Codes

I - Indirect

D - Direct

<u>Total Award</u>		<u>Accrued (Deferred) 12/31/05</u>	<u>Amount Received</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) 12/31/06</u>
140,477	-	9,329	10,987	1,658	1,658	-
60,823	-	-	-	34,213	34,213	34,213
19,379	-	-	-	14,534	14,534	14,534
35,418	-	-	-	26,564	26,564	26,564
26,409	-	-	-	19,807	19,807	19,807
2,548	-	-	-	1,911	1,911	1,911
11,561	-	-	-	8,671	8,671	8,671
8,319	-	-	-	6,239	6,239	6,239
17,293	-	-	-	12,970	12,970	12,970
22,960	11,535	<u>(11,425)</u>	<u>-</u>	<u>11,425</u>	<u>11,425</u>	<u>-</u>
		(2,096)	10,987	137,992	137,992	124,909
200,000	158,539	50,000	-	41,461	41,461	91,461
105,200	1,329	<u>1,329</u>	<u>-</u>	<u>287</u>	<u>287</u>	<u>1,616</u>
		<u>\$ 873,971</u>	<u>\$ 8,301,688</u>	<u>\$ 7,828,407</u>	<u>\$ 7,828,407</u>	<u>\$ 400,690</u>

CITY OF READING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2006

NOTE A - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting which recognizes income in the period it is earned and expenses in the period they are incurred.

NOTE B - SUBRECIPIENTS

The City of Reading provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Emergency Shelter Grant	14.231	\$ 96,547



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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Members of the Council
City of Reading
Reading, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, as of and for the year ended December 31, 2006, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated July 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Reading's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. Significant deficiencies in internal control over financial reporting are described as items 06-1 through 06-6 in the Schedule of Findings and Questioned Costs.



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 by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-1 through 06-6 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reading's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 06-4 and 06-5.

We also noted certain other matters that we reported to management of the City of Reading in a separate letter dated July 2, 2007.

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

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania
July 2, 2007



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Report on Compliance with Requirements
Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with
OMB Circular A-133

Members of the Council
City of Reading
Reading, Pennsylvania

Compliance

We have audited the compliance of the City of Reading with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City of Reading's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Reading's management. Our responsibility is to express an opinion on the City of Reading's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Reading's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Reading's compliance with those requirements.

In our opinion, the City of Reading complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-3.



Internal Control Over Compliance

The management of the City of Reading is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Reading's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirements of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 06-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected by the City's internal control. However, we consider the significant deficiency described above to be a material weakness.

The City of Reading's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Reading's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania
July 2, 2007

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2006

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? X yes no
 Significant deficiency(s) identified not considered to be
 material weaknesses? yes X none reported
 Type of auditor's report issued on compliance for major programs: unqualified
 Any audit findings disclosed that are required to be
 reported in accordance with Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	HOME Grant
16.710	Community Policing Initiative
97.036	Public Assistance Grants

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

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2006

Section II - Financial Statement Findings

06-1 ACCOUNTING PROCEDURES: TIMELINESS, ACCURACY, AND SUPERVISION

Criteria

It is imperative that the accounting division operate efficiently and provide accurate and timely information so that management has correct data to make informed decisions. The responsibilities of each team member must be clearly defined and management must hold each employee accountable for completing tasks that need to be accomplished. All financial activity must be reconciled to the general ledger in a timely manner in order for proper internal controls to function and for management to have accurate information to use in their decision making processes.

Condition/Cause

Although most general ledger accounts had been reconciled prior to the start of fieldwork, there were numerous items on the reconciliations that required additional research and resulted in material adjustments.

Effect

Material audit adjustments were needed to appropriately record material transactions that occurred during the year. Incomplete general ledgers pose a risk to the City's ability to accurately report its financial activity and increase the City's susceptibility to misappropriation of assets.

Recommendation

Account reconciliation includes reviewing the activity posted to the general ledger for consistency with the bank statement. When there are material items located on the bank statement without reciprocal transactions on the general ledger, additional work must be done to ascertain that the general ledger is capturing and reporting all related activity.

Benefit

If accounts are routinely reconciled, errors are less likely and more easily corrected when they do occur. Without routine reconciliation, the City increases its risk of material misstatement of its financial information, whether due to fraud or error.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2006

06-2 UTILITY BILLING DATA

Criteria

The City provides various services to its citizens and the surrounding community: water and sewer service, recycling and trash collection, and emergency medical services. Customers are billed for the services rendered, payments are remitted, and the City accounts for this activity. Timely billing process is critical to the cash flow needs of the City.

Condition/Cause

The City spent significant resources on a new billing system which was put in service for the utilities in March, 2005. At that time, very few safeguards were put in place to make sure billing and collections were timely and accurate. As a result, numerous bills were generated with significant errors. When discovered, the problem was resolved but not with an accurate audit trail or appropriate documentation.

Effect

Significant adjustments to utility revenue were made at year end.

Recommendation

We recommend the City put procedures in place to review information as it is posted and verify revenue based on usage before any bills are generated. We also recommend similar procedures be put in place for collections and posting of collections.

Benefit

It is important for City management to have a clear overview of financial condition at any given point in time, and utility billings are a large portion of the City's financial activity. It will also require significantly less preparation when the year has ended if records are maintained on a continuous basis.

Management Response

See corrective action plan included in this report package.

06-3 GRANTS AND CONTRIBUTIONS

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2006

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore current resources are not being utilized as effectively as they could be.

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. It is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will be able to accurately reconcile its HUD funds to the general ledger activity on an ongoing basis.

Management Response

See corrective action plan included in this report package.

06-4 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the state. The form is used to assist in the calculation of annual pension funding the City will be receiving from the state.

Condition/Cause

There has been turnover in the Pension Administrator position as well as within the Finance Department, and there have been other priorities plaguing these positions.

Effect

The City will receive state funding for pension obligations based on wages reported on the annual report. If wages are reported in excess of actual wages, the City will be over-funded by the state.

Recommendation

The preparation of the AG-385 should be completed in consideration of actual wages paid and the Internal Auditor's office should oversee the reporting due to the extensive involvement of the Internal Auditor with the pension funds.

Benefit

The City will be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained. In addition, there is less likely to be excess funds received from the state.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2006

06-5 LIQUID FUELS REPORTING

Criteria

The City reports annual expenditures related to liquid fuels to the state. Without this annual form completed in a timely fashion, annual liquid fuels funds are not released by the state.

Condition/Cause

The Public Works Department prepares this form annually, and neglected to file it timely for the 2006 fiscal year.

Effect

The City's liquid fuels funding was being held by the state until the form was submitted.

Recommendation

Timely filing by the City will ensure the receipt of annual liquid fuels funds. Additional assistance may be obtained from the Finance Department or Internal Auditor's office.

Benefit

Appropriate reporting of liquid fuels expenditures to the state will assist the City's cash flow position.

Management Response

See corrective action plan included in this report package.

06-6 INFORMATION TECHNOLOGY

Criteria

The City relies on information generated by numerous software packages to make critical operating decisions. Changes to the software and its reports are made by the Information Technology (IT) Department to extract relevant information for analysis and reporting purposes.

Condition/Cause

There are several employees in the IT Department working on numerous projects. Documentation should be retained on changes being made and testing of reports prior to implementation should be done to ensure an accurate and useful final product. Projects should be prioritized and changes evaluated by someone with financial background.

Effect

During 2006, inaccurate reporting generated from software was still a problem. There is improvement but the critical nature of the area requires that all financial and user data be timely and accurate.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2006

06-6 INFORMATION TECHNOLOGY - continued

Recommendation

An increased separation of duties and testing prior to implementation would enhance overall internal controls in the IT Department as well as enhance the accuracy of reporting. The addition of a coordinator, with a financial background, to oversee and prioritize departments requests and to test alterations being made would add an additional level of oversight to the department.

Benefit

With the City's investment in software packages and IT personnel, increased controls and policies could improve overall operation of the IT Department and output of useful and accurate financial reports.

Section III - Federal Award Findings and Questioned Costs

06-3 Grants and Contributions Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contract BO4MC420013, BO5MC420013 and BO6MC420013.



FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

ACCOUNTING & FISCAL MANAGEMENT DIVISION
ROOM 2-51
815 WASHINGTON STREET
READING, PA 19601-3690
(610) 655-6268

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

FINDING 05-1 ACCOUNTING PROCEDURES: TIMELINESS, ACCURACY, AND SUPERVISION

Summary of Prior Year Finding

When audit fieldwork began in April, there were several key ledger accounts that had not been reconciled through year-end, nor were they routinely reconciled throughout the year. As a result material adjustments were required to fairly present the City's financial position at year-end.

Prior Year Auditor Recommendation

We reiterate our recommendations from previous years, and emphasize the importance of having the ability to summarize financial information for management decisions. The accounting division needs to prioritize the timeliness, completeness, and accuracy of tasks on an ongoing basis. Procedures should be implemented and enforced to prevent such circumstances from continuing or recurring, such as the ongoing review of financial information and supervision from director-level personnel.

Prior Year Management Response

The City of Reading has over 25 checking and or saving accounts that range in size and complexity. Most of the bank accounts were reconciled on a monthly basis. In 2005 a new employee was hired as the accountant. All bank reconciliations were being performed by this employee on a monthly basis. However this employee left the position before completing some of the bank reconciliations. The accountants departure left the accounting office short staffed prior to and during the audit. The accounting division has recently hired a new accountant and all bank reconciliations will be completed on a monthly basis.

Current Status of Corrective Action Plan

See corrective action plan included in this report package.

FINDING 05-2 TAX OFFICE RECORDS

Summary of Prior Year Finding

The City's tax administration and treasury departments underwent a software conversion in the last quarter of 2003. The information generated by the new system had numerous discrepancies in the reconciliation of daily receipts compared to actual deposits. Most of the discrepancies have been resolved but the City still did not provide summary reports to the school district on a monthly basis as required by state law for all tax collectors.



STATUS OF PRIOR YEAR FINDINGS
AND RECOMMENDATIONS

- continued -

Prior Year Auditor Recommendation

City divisions such as tax, treasury, accounting, and information technology, must collaborate to improve the system for tracking tax receipts. There has been some improvement but monthly reconciliation of tax collections to software reports need to be implemented.

The City must develop an appropriate reporting mechanism to monitor the results being generated by the tax administration division, and must also take care to avoid further negative impact on the ability to deliver services.

Prior Year Management Response

The City of Reading converted multiple systems during the years 2003, 2004 and 2005. In 2004 the Tax Division, Accounting Division and the IT Division resolved many issues relating to the new tax software. The City began working on reports during the last quarter of fiscal year 2004 and beginning of 2005. All of the tax reports have been completed and the data verified for accuracy. The Tax Division currently provides the school district with monthly reports as required by law.

Current Status of Corrective Action Plan

Due to the consistent oversight by management personnel of the existing policies and procedures this finding has been resolved.

FINDING 05-3 UTILITY BILLING DATA

Summary of Prior Year Finding

The City spent significant resources on a new billing system which was put in service for the utilities in March, 2005. At that time, very few safeguards were put in place to make sure billing and collections were timely and accurate. As a result, numerous bills were generated with significant errors. When discovered, the problem was resolved but not with an accurate audit trail or appropriate documentation.

Prior Year Auditor Recommendation

We recommend the City put procedures in place to review information as it is posted and verify revenue based on usage before any bills are generated. We also recommend similar procedures be put in place for collections and posting of collections.

Prior Year Management Response

In 2004 the City began the process of updating its computer software to make a fully integrated financial system including utility billing. Prior to this new software, the Water Authority contracted with an outside source to generate billings, collect payments and provide the City of Reading and Water Authority with monthly reports. In March, 2005 the Water Authority began processing bills and collecting payments internally. The accounting division and the Water Authority are working closely with the IT division to create reports that will be provided to management for verification to ensure data accuracy and integrity. This will ensure the accuracy of the billings before they are generated and posted to the system. The accounting division and the information technology division are working with various departments to continually train personnel on the proper use of the new software system. This will improve the efficiency of the departments and significantly reduce the errors that lead to significant adjustments being posted to the system.

STATUS OF PRIOR YEAR FINDINGS
AND RECOMMENDATIONS

- continued -

Current Status of Corrective Action Plan

See corrective action plan included in this report package.

FINDING 05-4 GRANTS AND CONTRIBUTIONS

Summary of Prior Year Finding

There were several receipts that were completely omitted from the project accounting system. This included federal grants for economic development projects. Also, routine items such as grant contracts and expenditure invoices were not consistently maintained in the files or in the project accounting reports.

The reports generated by the project accounting system continue to be difficult to work with. Although a transaction may be designated with a project code, it may or may not show up on the project summary detail report. This inability to obtain accurate information from the software caused numerous errors in maintenance of project detail with regard to accruals and reclassifications.

Prior Year Auditor Recommendation

The project accounting system needs to be maintained and reconciled, and each project's activity needs to be tracked by using the system as well as files containing evidence to support expenditures, cash receipts, and any accrual activity. This is typically required by funding sources and is a key component of a grant recipient's accounting procedures. The City should continue to work on communication and sharing of information between its departments to ensure accuracy of financial records.

Prior Year Management Response

During 2004 there were significant problems with the software that caused extensive problems for the Grants Coordinator. This made it very difficult to train the Grants Coordinator on the proper accounting techniques. Most of the problems with the software have been resolved however the Accounting Division is working with the software company to improve the reports to meet its requirements. The Grants Coordinator has been fully trained and will continue to be supervised to insure the agency fund is meeting the financial requirements related to the funding sources. In October of 2005 the position of the CD Fiscal officer has been changed to report directly to the Accounting Manager. The Accounting Division will be taking a more active role in the monitoring of Community Development funds and the interaction of the position of the Community Development Fiscal Officer. Policies and Procedures will be put in place to insure the proper reporting of any new grants to the Grant Coordinator.

Current Status of Corrective Action Plan

See corrective action plan included in this report package.

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FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

ACCOUNTING & FISCAL MANAGEMENT DIVISION
ROOM 2-51
815 WASHINGTON STREET
READING, PA 19601-3690
(610) 655-6268

July 2, 2007

Commonwealth of Pennsylvania
Office of Budget
Bureau of Audits
P.O. Box 1326
Harrisburg, PA 17105

**Re: Corrective Action Plan
2006 Reportable Conditions**

Dear Sir or Madam:

Please accept the following as our official response and Corrective Action Plan for the reportable conditions identified by our auditors in the City of Reading Annual Audit for the year ending December 31, 2006.

**06-1 ACCOUNTING PROCEDURES: TIMELINESS, ACCURACY, AND
SUPERVISION**

Criteria

It is imperative that the accounting division operate efficiently and provide accurate and timely information so that management has correct data to make informed decisions. The responsibilities of each team member must be clearly defined and management must hold each employee accountable for completing tasks that need to be accomplished. All financial activity must be reconciled to the general ledger in a timely manner in order for proper internal controls to function and for management to have accurate information to use in their decision making processes.

Condition/Cause

Although most general ledger accounts had been reconciled prior to the start of fieldwork, there were numerous items on the reconciliations that required research and resulted in material adjustments.



Effect

Material audit adjustments were needed to appropriately record material transactions that occurred during the year. Incomplete general ledgers pose a risk to the City's ability to accurately report its financial activity and increase the City's susceptibility to misappropriation of assets.

Recommendation

Account reconciliation includes reviewing the activity posted to the general ledger for consistency with the bank statement. When there are material items located on the bank statement without reciprocal transactions on the general ledger, additional work must be done to ascertain that the general ledger is capturing and reporting all related activity.

Benefit

If accounts are routinely reconciled, errors are less likely and more easily corrected when they do occur. Without routine reconciliation, the City increases its risk of material misstatement of its financial information, whether due to fraud or error.

Management Response

In July 2006 a new employee was hired as the accountant. This position was vacant since March 2006. The new accountant began reconciling all bank accounts on a monthly basis. All bank accounts were reconciled before the audit began however, due to the significant number of bank accounts owned by the City, all adjustments were not made before the start of the audit. This resulted in adjustments being made during the audit. All accounts were adjusted and will continue to be reconciled on a monthly basis, including any adjustments.

06-2 UTILITY BILLING DATA

Criteria

The City provides various services to its citizens and the surrounding community: water and sewer service, recycling and trash collection, and emergency medical services. Customers are billed for the services rendered, payments are remitted, and the City accounts for this activity. Timely billing process is critical to the cash flow needs of the City.

Condition/Cause

The City spent significant resources on a new billing system which was put in service for the utilities in March, 2005. At that time, very few safeguards were put in place to make sure billing and collections were timely and accurate. As a result, numerous bills were generated with significant errors. When discovered, the problem was resolved but not with accurate audit trail or appropriate documentation.

Effect

Significant adjustments to utility revenue were made at year end.

Recommendation

We recommend the City put procedures in place to review information as it is posted and verify revenue based on usage before any bills are generated. We also recommend similar procedures be put in place for collections and posting of collections.

Benefit

It is important for City management to have a clear overview of financial condition at any given point in time, and utility billings are a large portion of the City's financial activity. It will also require significantly less preparation when the year has ended if records are maintained on a continuous basis.

Management Response

All issues with the utility billing have been with the water billing process. The City has discussed the procedures in place in the Water Authority in regards to its processes for both current and collection balances and has recommended that the Water Authority follow the same policies and procedures currently in place for the City's other utility divisions.

Numerous issues were found in 2006 with the water/sewer meters. After this problem was identified exception reports were created for management to review meter readings prior to a billing being generated. As a result of these incorrect readings significant adjustments were made in 2006 to correct these errors. Twenty thousand meters are scheduled to be replaced by Water Authority in its upcoming capital plan. Water Authority management reviews all billing reports to verify that the data is correctly posted before bills are generated.

06-3 GRANTS AND CONTRIBUTIONS

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore current resources are not being utilized as effectively as they could be.

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. It is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will be able to accurately reconcile its HUD funds to the general ledger activity on an ongoing basis.

Management Response

The Accounting Manager will be taking a more active role in monitoring the activity and draw down the HUD funds. Policies and Procedures have been put in place to reconcile the activity between the general ledger and the IDIS system to insure the timeliness and efficiency of all transactions.

06-4 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the state. The form is used to assist in the calculation of annual pension funding the City will be receiving from the state.

Condition/Cause

There has been turnover in the Pension Administrator position as well as within the Finance Department, and there have been other priorities plaguing these positions.

Effect

The City will receive state funding for pension obligations based on wages reported on the annual report. If wages are reported in excess of actual wages, the City will be over-funded by the state.

Recommendation

The preparation of the AG-385 should be completed in consideration of actual wages paid and the internal Auditor's office should oversee the reporting due to the extensive involvement of the Internal Auditor with the pension funds.

Benefit

The City will be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained. In addition, there is less likely to be excess funds received from the state.

Management Response

In 2006 a new employee was hired as the Pension Administrator. This employee was not properly trained on the preparation of the AG-385 reporting. The City's Internal Auditors will work closely with this employee to insure the accuracy of future reports.

06-5 LIQUID FUELS REPORTING

Criteria

The City reports annual expenditures related to liquid fuels to the state. Without this annual form completed in a timely fashion, annual liquid fuels funds are not released by the state.

Condition/Cause

The Public Works Department prepares this form annually, and neglected to file it timely for the 2006 fiscal year.

Effect

The City's liquid fuels funding was being held by the state until the form was submitted.

Recommendation

Timely filing by the City will ensure the receipt of annual liquid fuels funds. Additional assistance may be obtained from the Finance Department or Internal Auditor's Office.

Benefit

Appropriate reporting of liquid fuels expenditures to the state will assist the City's cash flow position.

Management Response

The Public Works Department believed that this report was being prepared by another department. After realizing that the report was not filed, the Public Works Department with the assistance of the Finance Department completed the report. The Public Works Department is now aware that they are responsible to file the annual report to the State.

06-6 INFORMALTION TECHNOLOGY

Criteria

The City relies on information generated by numerous software packages to make critical operating decisions. Changes to the software and its reports are made by the Information Technology (IT) Department to extract relevant information for analysis and reporting purposes.

Condition/Cause

There are several employees in the IT Department working on numerous projects. Documentation should be retained on changes being made and testing of reports prior to implementation should be done to ensure an accurate and useful final project. Projects should be prioritized and changes evaluated by someone with financial background.

Effect

During 2006, inaccurate reporting generated from software was still a problem. There is improvement but the critical nature of the area requires that all financial and user data be timely and accurate.

Recommendation

An increased separation of duties and testing prior to implementation would enhance overall internal controls in the IT Department as well as enhance the accuracy of reporting. The addition of a coordinator, with a financial background, to oversee and prioritize department's requests and to test alterations being made would add an additional level of oversight to the department.

Benefit

With the City's investment in software packages and IT personnel, increased controls and policies could improve overall operation of the IT Department and output of useful and accurate financial reports.

Management Response

Changes to the software and reports that are made by the IT division are at the requests of the parent department. All changes that are made are signed off by the parent department. Documentation of changes are kept either inside the programming or report being created or modified. It is the policy of the IT division that all user request programming and reports be tested and verified for accuracy, in writing, by the parent department prior to implementation in the production system. The Finance department will be requesting a new position within finance to oversee all billing processes and act as a liaison with the IT division.

I would like to thank the efforts of the Accounting Division and the Finance Department who came together as a whole to try and get these tasks completed in a timely fashion in order for the Auditors to complete the Audit in the timeline according to the City Charter.

If you have any questions regarding this plan, please feel free to contact me. Thank you.

Sincerely,



Dawn M. Cieniewicz
Accounting and Treasury Division Manager