

CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2008

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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 units, each major fund, and the aggregate remaining fund information of the City of Reading as of and for the year ended December 31, 2008, 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 units, each major fund, and the aggregate remaining fund information of the City of Reading as of December 31, 2008, 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 20, 2009, 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.

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Management's Discussion and Analysis, Budgetary Comparison Schedule for the General Fund, Schedules of Funding Progress and Employer Contributions - Retirement Plans and Schedule of Funding Progress - Post Employment Benefit Plan 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 60 through 71 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 Nonprofit 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 20, 2009



FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

ACCOUNTING & FISCAL MANAGEMENT DIVISION
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The City of Reading, Pennsylvania Management's Discussion and Analysis For the Year Ended December 31, 2008

The following discussion and analysis of the City of Reading's financial outcome provides an overview of the fiscal year ending December 31, 2008. 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 2008 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 have been added (infrastructure to be added by 2007) 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 units are the Reading Parking Authority and the Reading Redevelopment Authority. The Fiduciary Funds are the Police Pension Fund, the Paid Firemen's Pension Fund and the Officers' and Employees' Pension Fund.

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, 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.

Financial Highlights for FY 2008:

2008 was yet another year of financial difficulty. While expenditures met budget expectations, revenues fell short of expectations. The resulting deficiency of revenues over expenditures required strict cost containment and tight fiscal controls throughout 2008. Projections indicate the City is facing a cumulative structural deficit that will exceed any remedy or form of corrective action, unless substantial reform is achieved in the near future. The likelihood of continued deficits in the future, in view of tight fiscal controls and reductions in personnel, suggests that the

financial problems faced by Reading are structural and beyond the extent of improving operational efficiency. In 2008, the City of Reading, in conjunction with the cities of Easton, Bethlehem, Lancaster and York, authorized the Pennsylvania economy League (PEL) to undertake a comparative fiscal health analysis. The analysis concluded that total natural revenues generated in each of the five study cities are insufficient to support the cost of fundamental municipal services. The analysis further concluded that the erosion of the urban tax base, taken in combination with increasing demands for municipal services and rising personnel costs have forced cities to rely on various forms of operational supplements. This reliance cannot be sustained indefinitely. That these five cities only operate in the black from the sale of assets, debt mechanisms and fund transfers calls the very sustainability of local government in the Commonwealth of Pennsylvania into question.

The City ended the Fiscal year 2008 with a fund balance of \$3,514,002 in its General Fund; however, the existence of a fund balance should not be viewed as an indication of fiscal health. The cumulative deficit had been eliminated in preceding years through the issuance and forwarding swapping of debt. As was previously noted, the City continues to operate naturally at a deficit. Had debt service not been refunded in 2008 and the sale of valuable real-estate not been concluded, the City would have ended 2008 with a deficit of \$8,306,953 in its General Fund. The General Fund began the Fiscal year of 2005 with an accumulated deficit of \$7,220,468 when you add EMS's deficit. In 2005 the City of Reading was able to reduce the cumulative deficit by \$6,128,894 lowering the cumulative deficit to \$1,091,574 and in 2006 the Administration and Council achieved its goal of eliminating the deficit completely ending the year with a fund balance of \$8,472,145. Past history has shown that the City has been aggressive and exceptionally creative at addressing yearly deficits, but addressing the structural flaws has proved to be a challenge that has not been met.

Statement of Net Assets:

The following table consists of the condensed 2008 Statement of Net Assets:

	2008 Governmental Activities	2008 Business type Activities	2008 Total Primary Government	2008 Component Unit
ASSETS				
Current (restricted)	30,000,816	22,474,415	52,475,231	9,111,765
Capital and Other Assets	115,939,084	85,888,343	201,827,427	37,067,080
Total Assets	145,939,900	108,362,758	254,302,658	46,178,845
Current Liabilities	27,010,474	7,928,501	34,938,975	3,639,183
Long-term Liabilities	120,149,388	89,488,622	209,638,010	34,826,046
Total Liabilities	147,159,862	97,417,123	244,576,985	38,465,229
Net assets:				
Invested in capital assets, net of related debt	-	6,550,395	6,550,395	-
Restricted	-	1,351,590	1,351,590	-
Unrestricted	(1,219,962)	55,887,675	54,667,713	12,907,667
Total Net Assets	(1,219,962)	63,789,660	62,569,698	12,907,667

	2007	2007	2007	2007
	Governmental	Business-	Total	Component
	Activities	type	Primary	Unit
	Activities	Activities	Government	Unit
ASSETS				
Current (restricted)	29,239,146	43,626,668	72,865,814	10,936,008
Capital and other Assets	118,575,505	83,608,133	202,183,638	34,107,271
Total Assets	147,814,651	127,234,801	275,049,452	45,043,279
Current Liabilities	22,563,547	10,480,763	33,044,310	3,304,619
Long-term Liabilities	104,777,137	60,571,363	165,348,500	32,820,472
Total Liabilities	127,340,684	71,052,126	198,392,810	36,125,091
Net assets:				
Invested in capital assets, net of related debt	-	36,371,739	36,371,739	-
Restricted	-	3,218,670	3,218,670	-
Unrestricted	20,473,967	16,592,266	37,066,233	8,918,188
Total Net Assets	20,473,967	56,182,675	76,656,642	8,918,188

The following table consists of the condensed 2008 Statement of Revenues and Expenses:

	2008 Governmental Activities	2008 Business type Activities	2008 Total Primary Government	2008 Component Unit
REVENUES				
Program Revenues:				
Charges for Services	18,407,644	48,259,733	66,667,377	8,352,983
Operating grants and contributions	15,146,123	465,218	15,611,341	
Capital grants and contributions	-	1,460,134	1,460,134	
TOTAL PROGRAM REVENUES	33,553,767	50,185,085	83,738,852	8,352,983
General Revenues:				
Property Taxes, levied for general purposes	15,220,996		15,220,996	
Earned income, franchise, and other taxes	15,573,380		15,573,380	
Investment Earnings	1,656,048	791,232	2,447,280	734,496
Loss on Term Swap	(8,824,506)		(8,824,506)	
Miscellaneous income		363,873	363,873	506,235
Transfers	6,252,195	(6,252,195)	-	
TOTAL GENERAL REVENUES	29,878,113	(5,097,090)	24,781,023	1,240,731
Indirect Cost Allocation:				
Indirect cost	1,867,231	(1,867,231)	-	-
TOTAL INDIRECT REVENUES	1,867,231	(1,867,231)	-	-
Total Revenues	65,299,111	43,220,764	108,519,875	9,593,714
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	9,311,236			
Public safety				
Police	29,393,133			
Fire	12,413,899			
EMS	3,791,937			
Public Works: other	6,935,120			
Public Works: highways and streets	2,694,999			
Culture and recreation	14,526,122			
Community Development	1,236,470			
Other	809,930			
Debt service - interest	7,351,377			
TOTAL GOVERNMENTAL ACTIVITIES:	88,464,223			
Business Type activities				
Water		14,140,052		
Sewer		14,216,995		
Solid Waste		4,706,731		
TOTAL BUSINESS TYPE ACTIVITIES:		33,063,778		
Total Expenses-Primary Government	88,464,223	33,063,778	121,528,001	
Component Unit:				6,326,091
Reading Parking Authority				356,961
Reading Redevelopment Authority				6,683,052
CHANGE IN NET ASSETS	(23,165,112)	10,156,986	(13,008,126)	2,910,662
NET ASSETS-BEGINNING	21,945,150	53,632,674	75,577,824	9,997,005
NET ASSETS-ENDING	(1,219,962)	63,789,660	62,569,698	12,907,667

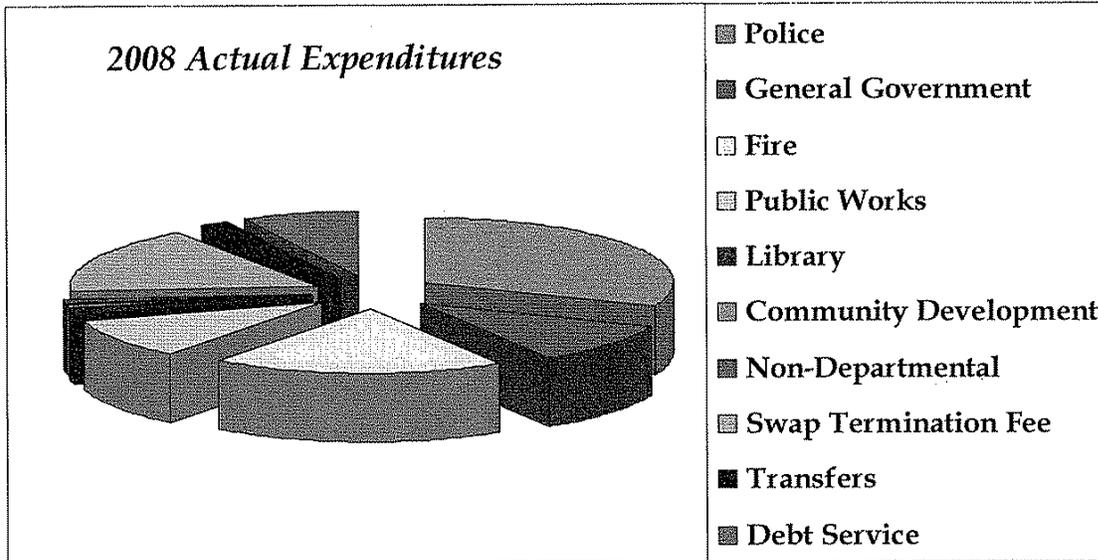
The following table consists of the condensed 2007 Statement of Revenues and Expenses:

	Governmental Activities	Business- Type Activities	Total	Component Unit
REVENUES				
Program Revenues:				
Charges for Services	12,369,616	48,207,682	60,577,298	7,769,974
Operating grants and contributions	14,123,617	770,647	14,894,264	-
Capital grants and contributions	-	-	-	-
TOTAL PROGRAM REVENUES	26,493,233	48,978,329	75,471,562	7,769,974
General Revenues:				
Property Taxes, levied for general purposes	15,209,153	-	15,209,153	-
Earned income, franchise, and other taxes	19,038,119	-	19,038,119	-
Investment earnings	2,748,720	822,391	3,571,651	604,942
Capital Contributions	-	-	-	-
Miscellaneous income	-	1,317	1,317	7,208
Transfers	7,128,313	(7,128,313)	-	-
TOTAL GENERAL REVENUES	44,124,305	(6,304,065)	37,820,240	612,150
Indirect Cost Allocation:				
Indirect cost	1,625,914	(1,625,914)	-	-
TOTAL INDIRECT REVENUES	1,625,914	(1,625,914)	-	-
Total Revenues	72,243,452	41,048,350	113,291,802	8,382,124

	Governmental Activities	Business- Type Activities	Total	Component Unit
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	9,280,081	-	9,280,081	-
Public safety				
Police	26,631,653	-	26,631,653	-
Fire	9,668,439	-	9,668,439	-
EMS	3,634,361	-	3,634,361	-
Public works: other	6,723,051	-	6,723,051	-
Public works: highways and streets	3,001,890	-	3,001,890	-
Culture and recreation	1,706,529	-	1,706,529	-
Community Development	7,920,529	-	7,920,529	-
Other	834,359	-	834,359	-
Debt service - interest	4,233,350	-	4,233,350	-
TOTAL GOVERNMENTAL ACTIVITIES	73,634,222	-	73,634,222	-
Business-type activities				
Water	-	12,218,809	12,218,809	-
Sewer	-	13,016,474	13,016,474	-
Trash and Recycling	-	4,396,187	4,396,187	-
TOTAL BUSINESS-TYPE ACTIVITIES	-	29,631,470	29,631,470	-
Total Expenses-Primary Government	73,634,222	29,631,470	103,265,692	-
Component Unit:				
Reading Parking Authority				
Parking	-	-	-	5,707,656
CHANGE IN NET ASSETS	(1,390,770)	11,416,880	10,026,110	2,674,468
NET ASSETS-BEGINNING	21,864,737	44,765,795	66,630,532	6,243,720
NET ASSETS-ENDING	20,473,967	56,182,675	76,656,642	8,918,188

General Fund Financial Highlights:

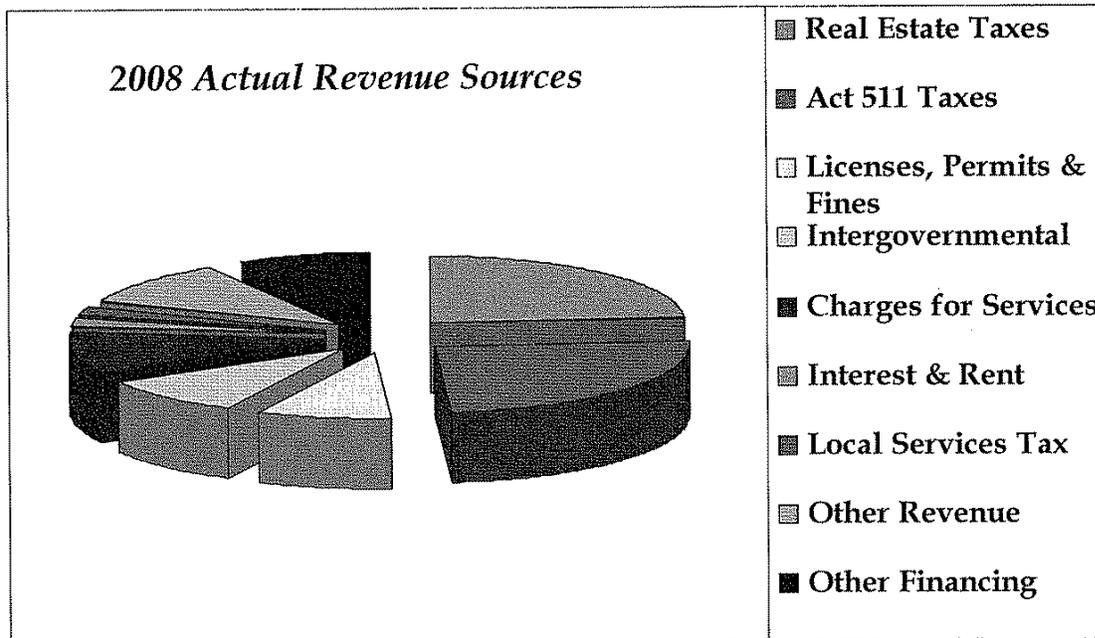
Expenditures and Other Financing Uses



Police	\$ 24,766,730	31.19%
General Government	\$ 8,197,620	10.32%
Fire - EMS	\$ 15,081,817	18.99%
Public Works	\$ 8,029,854	10.11%
Library	\$ 1,366,546	1.72%
Community Development	\$ 526,671	0.66%
Non-Departmental	\$ 809,930	1.02%
Swap Termination Fee	\$ 13,211,300	16.64%
Transfers	\$ 1,505,105	1.90%
Debt Service	\$ 5,915,684	7.45%
Total	\$ 79,411,257	100.00%

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 2008 fiscal year end numbers were \$310,350 less than budgeted. In 2008 total Public Safety expenditures were \$1.13 million less than budget and total Public Works expenditures were \$375,149.00 less than budget. While all departmental categories came in under budget, in some areas significantly so, revenues remain insufficient to support the cost of operations. Tight fiscal controls and exceptional management will not be able to compensate for the fundamental lack of resources necessary to provide current levels of service.

Revenues:



Real Estate Taxes	\$ 15,221,298	19.96%
Act 511 Taxes	\$ 15,527,403	20.36%
Licenses, Permits & Fines	\$ 5,345,445	7.01%
Intergovernmental	\$ 5,947,538	7.80%
Charges for Services	\$ 6,166,168	8.08%
Interest & Rent	\$ 1,425,607	1.87%
Other Revenue	\$ 6,754,440	8.86%
Other Financing	\$ 20,140,426	26.08%
Total	\$ 76,528,325	100.00%

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 2008 were \$39.81 million dollars, resulting in the actual real estate tax revenues of \$15.2 million being more than \$22 million dollars short of covering the expenses for Public Safety. This is not an uncommon occurrence. The PEL fiscal health study verified that the five study cities (Easton, Bethlehem, Lancaster and York) are all unable to support Public Safety services with real estate tax revenues. 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 with in the City in 2006. The loss in Act 511 taxes in 2008 is due to the sharp drop in the Real Estate Transfer Tax, which is a direct result of the national housing market crisis. 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 \$5.9 million. Several large development projects contributed to this increase over prior year performance. Fines and fees will be adjusted in 2009 to reflect the results of a true cost analysis. Intergovernmental charges, which were \$5.94 million for FY 2008 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 \$6.16 million. Interest and rent are competitive rates and contractual obligations from outside parties. The end of the year total was \$1.42 million, which represents a slight decrease from previous years. Other \$6.75 million come from such items as sales of property/equipment, direct cost reimbursement, indirect cost reimbursements, interfund transfers, etc. The largest single increase in this category is attributable to the sale of Antietam Lake to the County of Berks for \$4 million, which was finalized in 2008.

Capital Assets and City Debt:

During 2008 the City issued a number of General Obligation (GO) Bonds for the purpose of lowering annual debt service obligations and providing funding for mandated capital projects. Without the restructuring of the City debt portfolio, the City would have ended 2008 at a significantly higher deficit. While the refunding and swap terminations executed in 2008 came at a cost, their enactment provided crucial budgetary relief. Furthermore, future budget accuracy has been achieved by leveling off debt service payments through 2033.

The GO Bond Series of 2008, issued to fund required improvements to the city's Waste Water Treatment Plant (WWTP), refunded the GO Note, Series A of 2006 and terminated a forward starting swap. The swap termination fee totaled \$13,211,300 and was necessary in order to provide liquidity for the GO Bonds, Series 2009, which will be issued in November of 2009.

The GO Bond, Series A of 2008 refunded the remaining \$6,400,000.00 of Washington County Authority lease revenue bonds. The City also issued GO Bond, Series B of 2008, which refunded obligations related to the York General Authority's Outstanding adjustable rate pooled revenue bonds.

As part of a the larger refunding to lower debt service obligations in 2008 and 2009, the City issued GO Bonds, Series C, D & E, to advance refunded portions of the series 2006 GO Bonds and Notes Series of 2005 and all of the outstanding principal and interest associated with the GO Bonds of 2002. This refunding lowered debt service in 2008 from an estimated total of \$8,865,128 to \$3,703,889.32, for a savings of \$5,161,239.09 in 2008.

Economic Factors and 2008's Budgets and Rates:

The City of Reading maintained the earned income tax at 2.7% for fiscal year 2008 and the property tax rate 10.9 mills. In 2008 the Emergency Municipal Services Tax was replaced by the Local Services Tax, which generated \$894,128.61 in revenue. This change in tax policy by the state resulted in a net loss of \$702,700.53 over the prior year EMST collections. The Real Estate Transfer Tax failed to meet the budgeted expectation of \$7,215,868, largely due to the national collapse of the housing market. Based upon these observed declines in actual revenue performance in 2008, projections show revenues gradually declining moving forward. Changes in state tax policy, increases in property and Act 511 taxes, as well as adjustments to fines and fees assessed by the City will all be necessary in 2009 to return revenues to positive growth. The City, as part of an EIP II study funded by the Pennsylvania Department of Community and Economic Development, did commission an analysis of the existing fines and fess structure and anticipates increasing total revenues received by \$1.5 million in 2009 as a result.

A number of economic development projects initiated in previous years reached completion in 2008. A twelve screen multiplex begun in 2006 was completed in August and plans were finalized for the construction of a Hotel and Convention Center, to be located on Penn Street across from the Sovereign Arena. In order to encourage development and provide flexibility to developers the City adopted a Planned Residential Development Overlay (PRD), in accordance with Article 7 of the Pennsylvania Municipalities Planning Code. The PRD will allow developers, who acquire a certain threshold of developable acreage to utilize a zoning overlay for mixed-use residential and commercial development. The PRD supports the RiverPlace Master Plan, which calls for the highest and best use development along the Schuylkill riverfront. Efforts are being made to improve the quality of neighborhoods and the value of the residential homes. A Blighted Property Review Committee was organized, in accordance with relevant state enabling legislation, to identify and qualify blight throughout the City.

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, Managing Director at 610-655-6222 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, 2008

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
ASSETS					
Current assets					
Cash and cash equivalents	\$ 10,200,710	\$ 19,690,208	\$ 29,890,918	\$ 7,097,940	\$ 62,251
Investments	5,003,350	218,616	5,221,966	-	1,493,499
Accounts receivable, net	2,303,499	5,562,238	7,865,737	184,197	1,500
Taxes receivable, net	2,307,722	-	2,307,722	-	-
Internal balances	7,874,384	(7,874,384)	-	-	-
Intergovernmental receivables	2,311,151	2,660,428	4,971,579	-	-
Inventory	-	654,841	654,841	-	130,241
Lease receivable - current portion	-	-	-	-	95,000
Other current assets	-	1,562,468	1,562,468	47,137	-
Total current assets	<u>30,000,816</u>	<u>22,474,415</u>	<u>52,475,231</u>	<u>7,329,274</u>	<u>1,782,491</u>
Restricted assets					
Cash and investments	-	52,844,025	52,844,025	5,169,329	24,722
Other noncurrent assets					
Unamortized bond issue costs	2,496,573	2,297,155	4,793,728	609,731	-
Unamortized loan origination fee	-	-	-	273,066	-
Notes receivable, noncurrent	29,271,419	-	29,271,419	-	-
Net pension asset	42,727,212	-	42,727,212	-	-
Lease receivable - noncurrent portion	-	-	-	-	3,615,000
Other property asset	-	-	-	159,241	-
Capital assets					
Land	280,960	2,074,359	2,355,319	2,435,545	-
Buildings, net of accumulated depreciation	15,042,122	22,519,259	37,561,381	29,189,638	-
Machinery and equipment, net of accumulated depreciation	8,959,772	4,898,803	13,858,575	419,467	-
Improvements, net of accumulated depreciation	10,645,016	47,305,423	57,950,439	34,174	-
Infrastructure, net of accumulated depreciation	2,404,274	-	2,404,274	-	-
Construction in progress	4,111,736	6,793,344	10,905,080	331,218	-
Total other noncurrent assets	<u>115,939,084</u>	<u>85,888,343</u>	<u>201,827,427</u>	<u>33,452,080</u>	<u>3,615,000</u>
TOTAL ASSETS	<u>\$ 145,939,900</u>	<u>\$ 161,206,783</u>	<u>\$ 307,146,683</u>	<u>\$ 45,950,683</u>	<u>\$ 5,422,213</u>

See accompanying notes

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities					
Accounts payable	\$ 10,985,151	\$ 2,235,580	\$ 13,220,731	\$ 415,805	\$ 15,379
Benefits payable	257,898	-	257,898	38,021	-
Accrued interest	658,475	110,052	768,527	55,648	11,747
Deferred revenue	1,192,586	-	1,192,586	75,824	3,167
Interest rate swap contract	2,757,650	-	2,757,650	-	-
Other current liabilities	814,613	147,779	962,392	-	-
Current portion lease payable	95,000	-	95,000	-	-
Current portion notes and bonds payable	10,249,101	5,435,090	15,684,191	2,928,592	95,000
Total current liabilities	27,010,474	7,928,501	34,938,975	3,513,890	125,293
Noncurrent liabilities					
Notes and bonds payable	125,297,698	96,533,586	221,831,284	43,827,208	3,615,000
Lease payable	3,615,000	-	3,615,000	-	-
Unamortized bond premium	-	848,433	848,433	-	-
Unamortized bond discount	(288,642)	(582,229)	(870,871)	-	-
Deferred loss on bond issuance	(3,854,757)	(1,405,137)	(5,259,894)	(3,580,519)	-
Unamortized interest on capital appreciation bonds	(8,109,901)	(6,071,438)	(14,181,339)	(9,914,253)	-
Other	-	-	-	878,610	-
Other post employment benefits	2,422,485	165,407	2,587,892	-	-
Accrued compensated absences	1,067,505	-	1,067,505	-	-
Total noncurrent liabilities	120,149,388	89,488,622	209,638,010	31,211,046	3,615,000
TOTAL LIABILITIES	147,159,862	97,417,123	244,576,985	34,724,936	3,740,293
NET ASSETS					
Invested in capital assets, net of related debt	-	6,550,395	6,550,395	-	-
Restricted for:					
Capital projects	-	1,351,590	1,351,590	-	-
Unrestricted	(1,219,962)	55,887,675	54,667,713	11,225,747	1,681,920
TOTAL NET ASSETS	(1,219,962)	63,789,660	62,569,698	11,225,747	1,681,920
TOTAL LIABILITIES AND NET ASSETS	\$ 145,939,900	\$ 161,206,783	\$ 307,146,683	\$ 45,950,683	\$ 5,422,213

CITY OF READING
STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

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	\$ 9,311,236	\$ (2,018,961)	\$ 5,047,808	\$ 3,194,657	\$ -
Public safety:					
Police	29,393,133	-	246,486	2,860,307	-
Fire	12,413,899	-	3,570,182	94,347	-
EMS	3,791,937	-	5,277,636	392,314	-
Public works - highways and streets	2,694,999	-	67,809	1,459,235	-
Public works - other	6,935,120	-	1,113,131	78,704	-
Community development	1,236,470	151,730	2,159,784	6,166,559	-
Culture and recreation	14,526,122	-	664,791	900,000	-
Other	809,930	-	260,017	-	-
Debt service - interest	7,351,377	-	-	-	-
Total governmental activities	88,464,223	(1,867,231)	18,407,644	15,146,123	-
Business-type activities:					
Water	14,140,052	706,885	17,512,244	(12,467)	1,460,134
Sewer	14,216,995	992,767	26,034,413	477,685	-
Trash and recycling	4,706,731	167,579	4,713,076	-	-
Total business-type activities	33,063,778	1,867,231	48,259,733	465,218	1,460,134
Total primary government	\$ 121,528,001	\$ -	\$ 66,667,377	\$ 15,611,341	\$ 1,460,134
Component Unit:					
Reading Parking Authority:					
Parking	\$ 6,326,091	\$ -	\$ 7,923,473	\$ -	\$ -
Reading Redevelopment Authority					
Redevelopment	356,961	-	429,510	-	-
General Revenues and Transfers:					
Taxes:					
Property taxes, levied for general purposes					
Earned income, franchise, and other taxes, levied for general purposes, net					
Investment earnings					
Miscellaneous income					
Loss on termination of swaps					
Transfers					
Total General Revenues and Transfers					
Change in Net Assets					
Net Assets - Beginning					
Net Assets - Ending					

* - Decrease of \$1,078,817 representing the Reading Redevelopment 12/31/07 fund balance now presented as a discretely presented component unit and increase of \$2,550,000 related to prior year meter surcharge revenues due from the Reading Area Water Authority

See accompanying notes

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Business-Type Activities	Total	Component Unit (Reading Parking Authority)	Component Unit (Reading Redevelopment Authority)
\$ 950,190	\$ -	\$ 950,190	\$ -	\$ -
(26,286,340)	-	(26,286,340)	-	-
(8,749,370)	-	(8,749,370)	-	-
1,878,013	-	1,878,013	-	-
(1,167,955)	-	(1,167,955)	-	-
(5,743,285)	-	(5,743,285)	-	-
6,938,143	-	6,938,143	-	-
(12,961,331)	-	(12,961,331)	-	-
(549,913)	-	(549,913)	-	-
(7,351,377)	-	(7,351,377)	-	-
(53,043,225)	-	(53,043,225)	-	-
-	4,112,974	4,112,974	-	-
-	11,302,336	11,302,336	-	-
-	(161,234)	(161,234)	-	-
-	15,254,076	15,254,076	-	-
(53,043,225)	15,254,076	(37,789,149)	-	-
-	-	-	1,597,382	-
-	-	-	-	72,549
15,220,996	-	15,220,996	-	-
15,573,380	-	15,573,380	-	-
1,656,048	791,232	2,447,280	698,043	36,453
-	363,873	363,873	12,134	494,101
(8,824,506)	-	(8,824,506)	-	-
6,252,195	(6,252,195)	-	-	-
29,878,113	(5,097,090)	24,781,023	710,177	530,554
(23,165,112)	10,156,986	(13,008,126)	2,307,559	603,103
21,945,150	* 53,632,674	75,577,824	8,918,188	1,078,817
<u>\$ (1,219,962)</u>	<u>\$ 63,789,660</u>	<u>\$ 62,569,698</u>	<u>\$ 11,225,747</u>	<u>\$ 1,681,920</u>

CITY OF READING
BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2008

	General	Community Development
ASSETS		
Cash and cash equivalents	\$ (1,805,372)	\$ 2,778,296
Investments	647,810	-
Accounts receivable	1,388,206	214,152
Taxes receivable, net	1,646,848	-
Interfund receivable	13,241,557	251,721
Intergovernmental receivable	-	458,923
Notes receivable - noncurrent	-	25,271,548
	TOTAL ASSETS	\$ 28,974,640
	\$ 15,119,049	\$ 28,974,640
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 1,935,335	\$ 464,154
Payroll withholdings	257,898	-
Interfund payable	7,300,425	1,920,507
Deferred revenue	1,546,776	25,271,548
Other liabilities	564,613	-
	TOTAL LIABILITIES	27,656,209
	11,605,047	27,656,209
 FUND BALANCES		
Reserve for Capital Projects	-	-
Reserve for Debt Service	-	-
Unreserved/Undesignated Fund Balances:		
General Fund	3,514,002	-
Community Development	-	1,318,431
Agency Fund	-	-
Liquid Fuels	-	-
	TOTAL FUND BALANCES	1,318,431
	3,514,002	1,318,431
	TOTAL LIABILITIES	\$ 28,974,640
	\$ 15,119,049	\$ 28,974,640

See accompanying notes

Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
\$ 4,054,390	\$ 27,139	\$ 3,971,473	\$ 9,025,926
846,709	572	225,900	1,720,991
-	-	701,141	2,303,499
-	-	-	1,646,848
2,929,629	138,502	408,336	16,969,745
823,032	1,029,196	-	2,311,151
4,351,348	2,888,571	-	32,511,467
<u>\$ 13,005,108</u>	<u>\$ 4,083,980</u>	<u>\$ 5,306,850</u>	<u>\$ 66,489,627</u>
\$ 585,439	\$ -	\$ 444,246	\$ 3,429,174
-	-	-	257,898
1,216,790	-	2,287,207	12,724,929
-	3,917,767	1,192,586	31,928,677
-	-	-	564,613
<u>1,802,229</u>	<u>3,917,767</u>	<u>3,924,039</u>	<u>48,905,291</u>
11,202,879	-	-	11,202,879
-	166,213	-	166,213
-	-	-	3,514,002
-	-	-	1,318,431
-	-	718,377	718,377
-	-	664,434	664,434
<u>11,202,879</u>	<u>166,213</u>	<u>1,382,811</u>	<u>17,584,336</u>
<u>\$ 13,005,108</u>	<u>\$ 4,083,980</u>	<u>\$ 5,306,850</u>	<u>\$ 66,489,627</u>

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CITY OF READING

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

December 31, 2008

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 17,584,336
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**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 \$83,383,003 and the accumulated depreciation is \$41,939,123	41,443,880
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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	2,452,945
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Other long-term loans (receivables) are not available to pay current period expenditures and therefore, are deferred in the funds.	29,189,315
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Establish allowance for doubtful accounts - property taxes receivable (\$245,295) and other long-term asset receivables (\$3,240,048)	(3,485,343)
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Net pension asset established upon long-term financing of unfunded pension obligation to be amortized over future periods when benefit is received	42,727,212
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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.	530,734
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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:

Bond Discount, Net of Amortization	\$ 288,642	
Bond Issuance Costs, Net of Amortization	2,496,573	
Bonds/Notes/Leases Payable	(139,256,799)	
Accrued Interest on Bonds	(658,475)	
Unamortized Interest	8,109,901	
Other Post Employment Benefits	(2,422,485)	
Compensated Absences	(1,067,505)	
Deferred (Gain/Loss) on Bond Issuance	3,854,757	(128,655,391)

Interest rate option payment to be amortized over the life of agreement, net of amortization	(2,757,650)
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Establish liability for legal settlement, not due and payable in the current period	(250,000)
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ (1,219,962)
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CITY OF READING

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

Year Ended December 31, 2008

	General	Community Development	Capital Projects
Revenues:			
Real estate taxes	\$ 15,221,298	\$ -	\$ -
Act 511 taxes	15,527,403	-	-
Licenses, permits and fines	5,345,445	-	-
Intergovernmental	5,947,538	4,670,560	-
Charges for services	6,166,168	5,513,511	-
Interest and rent	1,425,607	-	57,006
Other	6,754,440	-	200
TOTAL REVENUES	56,387,899	10,184,071	57,206
Expenditures:			
Current:			
General government	8,197,620	-	-
Public safety			
Police	24,766,730	-	-
Fire	11,379,791	-	-
EMS	3,702,026	-	-
Public works - highways and streets	1,275,775	-	-
Public works - other	6,754,079	-	-
Community development	526,671	10,734,120	-
Culture and recreation	1,366,546	-	-
Other	809,930	-	-
Capital outlays	-	-	2,941,789
Debt service - principal	1,523,961	-	-
Debt service - interest	4,391,723	-	-
TOTAL EXPENDITURES	64,694,852	10,734,120	2,941,789
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,306,953)	(550,049)	(2,884,583)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	13,856,749	-	4,327,998
Proceeds from refunding bonds	-	-	-
Payment to Refunding Agent	-	-	-
Bond discounts	(250,364)	-	-
Swap termination fees	(13,211,300)	-	-
Operating transfers in	6,283,677	-	-
Operating transfers out	(1,505,105)	-	(40,655)
TOTAL OTHER FINANCING SOURCES (USES)	5,173,657	-	4,287,343
NET CHANGE IN FUND BALANCES	(3,133,296)	(550,049)	1,402,760
FUND BALANCES - BEGINNING	6,647,298 *	1,868,480	9,800,119
FUND BALANCES - ENDING	\$ 3,514,002	\$ 1,318,431	\$ 11,202,879

* Adjusted by \$2,550,000 for prior year meter surcharge due from the Reading Area Water Authority

See accompanying notes

Debt Service	Nonmajor Funds	Total Governmental Funds
\$ -	\$ -	\$ 15,221,298
-	-	15,527,403
-	-	5,345,445
-	4,616,045	15,234,143
-	-	11,679,679
(5,080)	178,515	1,656,048
-	-	6,754,640
(5,080)	4,794,560	71,418,656
1,059,917	-	9,257,537
-	942,241	25,708,971
-	160,793	11,540,584
-	-	3,702,026
-	1,131,309	2,407,084
-	181,041	6,935,120
-	2,604,366	13,865,157
-	-	1,366,546
-	-	809,930
-	-	2,941,789
-	-	1,523,961
3,219	-	4,394,942
1,063,136	5,019,750	84,453,647
(1,068,216)	(225,190)	(13,034,991)
-	-	18,184,747
47,464,249	-	47,464,249
(47,336,418)	-	(47,336,418)
-	-	(250,364)
-	-	(13,211,300)
13,820	-	6,297,497
-	(4,647)	(1,550,407)
141,651	(4,647)	9,598,004
(926,565)	(229,837)	(3,436,987)
1,092,778	1,612,648	21,021,323
<u>\$ 166,213</u>	<u>\$ 1,382,811</u>	<u>\$ 17,584,336</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, 2008

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (3,436,987)

**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	\$ 5,738,188	
Less: Depreciation Expense	<u>(3,366,768)</u>	2,371,420

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	(302)	
Notes Receivable	<u>(3,395,203)</u>	(3,395,505)

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 as shown below:

Issuance of Bonds and Notes	(65,648,996)	
Amortization of Bond Discount	83,532	
Amortization of Deferred Gains/Losses on Bond Issuance	625,885	
Payment to Escrow Agent	47,336,418	
Repayment of Bond Principal	1,523,961	
Amortization of Bond Issuance Costs	<u>872,997</u>	(15,206,203)

Loss on termination of interest rate management plans and amortization of interest on outstanding swap agreements		4,529,539
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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, 2008

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 (3,043,143)

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 (187,474)

Internal service funds are used by management to charge the cost of insurance bond related claims to individual funds. Net revenues over expenditures were allocated back equitably to governmental activities (250,540)

Pension expense amortized to fund unfunded actuarial pension accrued liability in excess of the annual required contribution (2,373,734)

Post employment benefits are recognized when they are paid on the fund statements. With the implementation of GASB #45, an estimated liability for future benefits due will be phased in over several years. This amount represents the difference between the estimated annual cost and the amount paid (2,422,485)

Settlement payable in the current period, awarded and accrued in a prior period. 250,000

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (23,165,112)

CITY OF READING
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS

Year Ended December 31, 2008

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 7,417,769	\$ 11,187,504	\$ 1,084,935	\$ 19,690,208	\$ 1,174,784
Investments	113,713	104,903	-	218,616	3,282,359
Accounts receivable, net of allowance of \$4,232,333 in the enterprise funds	2,011,319	2,100,088	1,450,831	5,562,238	-
Interfund receivables	2,710,987	1,983,805	338,888	5,033,680	1,663,792
Intergovernmental receivables	-	2,660,428	-	2,660,428	-
Other receivables	1,555,495	-	-	1,555,495	-
Prepaid expenses	6,973	-	-	6,973	-
Inventory	654,841	-	-	654,841	-
Total current assets	14,471,097	18,036,728	2,874,654	35,382,479	6,120,935
Restricted assets					
Cash and investments	24,852,147	27,991,878	-	52,844,025	-
Other noncurrent assets					
Unamortized bond issue costs	1,108,276	1,188,879	-	2,297,155	-
Land	2,059,359	15,000	-	2,074,359	-
Buildings	7,789,674	38,216,252	-	46,005,926	-
Improvements	54,002,326	25,949,649	-	79,951,975	-
Machinery and equipment	7,490,321	7,376,694	546,651	15,413,666	-
Construction in progress	1,318,328	5,475,016	-	6,793,344	-
Less: accumulated depreciation	(35,352,220)	(31,069,301)	(226,561)	(66,648,082)	-
Total other noncurrent assets	38,416,064	47,152,189	320,090	85,888,343	-
TOTAL ASSETS	\$ 77,739,308	\$ 93,180,795	\$ 3,194,744	\$ 174,114,847	\$ 6,120,935

See accompanying notes

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities					
Accounts payable	\$ 258,821	\$ 1,559,968	\$ 416,791	\$ 2,235,580	\$ 767,829
Interfund payables	6,254,544	4,111,445	2,542,075	12,908,064	2,688,583
Accrued interest	110,052	-	-	110,052	-
Accrued claims	-	-	-	-	2,133,789
Escrow deposits	147,779	-	-	147,779	-
Current portion notes and bonds payable	1,773,544	3,661,546	-	5,435,090	-
Total current liabilities	<u>8,544,740</u>	<u>9,332,959</u>	<u>2,958,866</u>	<u>20,836,565</u>	<u>5,590,201</u>
Noncurrent liabilities					
Post Employment Benefits Obligations	71,839	88,082	5,486	165,407	-
Bond discount	-	(582,229)	-	(582,229)	-
Bond premium	848,433	-	-	848,433	-
Deferral on refunding	(418,797)	(986,340)	-	(1,405,137)	-
Unamortized interest on capital appreciation bonds	(6,071,438)	-	-	(6,071,438)	-
Notes and bonds payable	55,925,096	40,608,490	-	96,533,586	-
Total noncurrent liabilities	<u>50,355,133</u>	<u>39,128,003</u>	<u>5,486</u>	<u>89,488,622</u>	<u>-</u>
TOTAL LIABILITIES	58,899,873	48,460,962	2,964,352	110,325,187	5,590.201
NET ASSETS					
Invested in capital assets, net of related debt	2,968,462	3,261,843	320,090	6,550,395	-
Restricted for capital projects	1,351,590	-	-	1,351,590	-
Unrestricted net assets (accumulated deficit)	14,519,383	41,457,990	(89,698)	55,887,675	530,734
TOTAL NET ASSETS	18,839,435	44,719,833	230,392	63,789,660	530,734
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 77,739,308</u>	<u>\$ 93,180,795</u>	<u>\$ 3,194,744</u>	<u>\$ 174,114,847</u>	<u>\$ 6,120,935</u>

CITY OF READING

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

Year Ended December 31, 2008

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
OPERATING REVENUES			
Charges for services	\$17,359,954	\$ 26,034,413	\$ 4,650,501
Other	152,290	-	62,575
TOTAL OPERATING REVENUES	17,512,244	26,034,413	4,713,076
OPERATING EXPENSES			
Personnel	3,946,517	4,405,822	261,069
Depreciation and amortization	1,798,723	2,127,258	70,232
Other	6,466,253	7,063,531	4,543,009
TOTAL OPERATING EXPENSES	12,211,493	13,596,611	4,874,310
NET OPERATING INCOME (LOSS)	5,300,751	12,437,802	(161,234)
NONOPERATING REVENUES (EXPENSES)			
Grants	(12,467)	477,685	-
Interest income	756,337	34,895	-
Interest expense	(1,766,809)	(744,516)	-
Other	(8,456)	319,769	1,526
NET NONOPERATING REVENUES (EXPENSES)	(1,031,395)	87,833	1,526
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	4,269,356	12,525,635	(159,708)
Capital contributions	1,460,134	-	-
Operating transfers in	-	-	-
Operating transfers out	(3,959,737)	(4,029,728)	-
NET INCOME	1,769,753	8,495,907	(159,708)
NET ASSETS (ACCUMULATED DEFICIT), BEGINNING OF YEAR, as restated	17,069,682	* 36,223,926	390,100
NET ASSETS, END OF YEAR	\$ 18,839,435	\$ 44,719,833	\$ 230,392

* Adjusted by \$2,550,000 for prior year meter surcharges due to the General Fund, \$82,034 to record accrued interest receivable for the prior year, and \$31,000 to expense items that were previously capitalized

See accompanying notes

Total Enterprise Funds	Internal Service Funds
\$ 48,044,868	\$ -
<u>214,865</u>	<u>38,486</u>
48,259,733	38,486
8,613,408	63,205
3,996,213	-
<u>18,072,793</u>	<u>3,579,202</u>
30,682,414	3,642,407
17,577,319	(3,603,921)
465,218	-
791,232	111,006
(2,511,325)	-
<u>312,839</u>	<u>-</u>
(942,036)	111,006
16,635,283	(3,492,915)
1,460,134	-
-	3,242,375
<u>(7,989,465)</u>	<u>-</u>
10,105,952	(250,540)
53,683,708	781,274
<u>\$ 63,789,660</u>	<u>\$ 530,734</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2008

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 17,209,350	\$ 26,627,170	\$ 4,370,903
Cash payments to employees for services	(3,874,678)	(4,317,740)	(255,583)
Cash payments to suppliers for goods and services	(8,584,981)	(5,566,339)	(4,257,748)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,749,691	16,743,091	(142,428)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating revenues/expenses, net	(8,456)	319,769	1,526
Grants	(12,467)	477,685	-
Operating transfers in	-	-	-
Operating transfers out	(3,959,737)	(4,029,728)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(3,980,660)	(3,232,274)	1,526
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	1,460,134	-	-
Advance from bond proceeds account	2,496,723	-	-
Issuance of new debt	-	30,221,047	-
Acquisition of property and equipment	(2,515,639)	(3,504,718)	(20,145)
Interest paid	(1,122,038)	(744,516)	-
Bonds issuance costs paid	-	(1,200,199)	-
Payments of long-term debt	(1,763,382)	(2,763,999)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,444,202)	22,007,615	(20,145)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	156,337	34,895	-
Net purchase (redemption) of investments	(2,996)	(27,993,524)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	153,341	(27,958,629)	-
NET INCREASE (DECREASE) IN CASH	(521,830)	7,559,803	(161,047)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,939,599	3,627,701	1,245,982
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,417,769</u>	<u>\$ 11,187,504</u>	<u>\$ 1,084,935</u>

See accompanying notes

Totals	Internal Service Fund
\$ 48,207,423	\$ 38,598
(8,448,001)	(63,205)
<u>(18,409,068)</u>	<u>(1,980,851)</u>
21,350,354	(2,005,458)
312,839	-
465,218	-
-	3,242,375
<u>(7,989,465)</u>	<u>-</u>
(7,211,408)	3,242,375
1,460,134	-
2,496,723	-
30,221,047	-
(6,040,502)	-
(1,866,554)	-
(1,200,199)	-
<u>(4,527,381)</u>	<u>-</u>
20,543,268	-
191,232	111,006
<u>(27,996,520)</u>	<u>(306,997)</u>
<u>(27,805,288)</u>	<u>(195,991)</u>
6,876,926	1,040,926
<u>12,813,282</u>	<u>133,858</u>
<u>\$ 19,690,208</u>	<u>\$ 1,174,784</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2008

	Water Fund	Sewer Fund	Other Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$5,300,751	\$ 12,437,802	\$ (161,234)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,798,723	2,127,258	70,232
Amortization of bond issue costs	65,922	86,134	-
Amortization of bond discount costs	31,229	109,157	-
Amortization of deferral on refunding	15,137	78,379	-
Net (increase) decrease in assets:			
Accounts receivable	1,004,413	592,756	(342,173)
Other receivables	(1,307,307)	-	-
Prepaid expenses	(1,973)	-	-
Due from other funds	(133,623)	844,351	-
Due from other governments	-	(173,378)	-
Inventory	52,210	-	-
Net increase (decrease) in liabilities:			
Accounts payable	(211,931)	565,752	102,966
Due to other funds	(1,935,699)	(13,202)	182,295
Other liabilities	71,839	88,082	5,486
Accrued claims	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 4,749,691	\$ 16,743,091	\$ (142,428)

See accompanying notes

Totals	Internal Service Fund
\$ 17,577,319	\$ (3,603,921)
3,996,213	-
152,056	-
140,386	-
93,516	-
1,254,996	112
(1,307,307)	-
(1,973)	-
710,728	434,317
(173,378)	-
52,210	-
456,787	423,491
(1,766,606)	876,243
165,407	-
-	(135,700)
<u>\$ 21,350,354</u>	<u>\$ (2,005,458)</u>

CITY OF READING
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2008

	Total Trust Funds	Agency Earned Income Tax Fund
ASSETS		
Cash and cash equivalents	\$ 8,177,020	\$ 5,300,325
Investments	133,801,525	2,336,784
Interfund receivable	1,592,160	3,616,929
TOTAL ASSETS	\$ 143,570,705	\$ 11,254,038
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 186,451	\$ 2,478,683
Interfund payable	27,859	526,871
Funds held in escrow	-	8,248,484
TOTAL LIABILITIES	214,310	11,254,038
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	143,356,395	-
TOTAL NET ASSETS AND LIABILITIES	\$ 143,570,705	\$ 11,254,038

CITY OF READING
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2008

ADDITIONS

Contributions	
Member, city and state contributions	\$ 5,449,186
Investment income	
Interest and dividends	4,685,883
Realized and unrealized gain (loss) on sale of investments	<u>(39,088,800)</u>
TOTAL ADDITIONS	(28,953,731)

DEDUCTIONS

Benefits, including tax withheld	12,580,527
Administrative expenses	963,006
Refunds paid	<u>117,351</u>
TOTAL DEDUCTIONS	<u>13,660,884</u>

NET DECREASE (42,614,615)

**NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS, BEGINNING OF YEAR**

185,971,010

**NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS, END OF YEAR**

\$ 143,356,395

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 1 - 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, 2008.

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 generally accepted accounting principles 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, 2008

NOTE 1 - 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 unit reported in this way is the Reading Area Water 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.

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 units presented in this way are the Reading Parking Authority and the Reading Redevelopment 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.

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 whom 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. The City is presently financing operations of the Redevelopment Authority.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 - 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 whom 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, 2008, were immaterial to the basic financial statements taken as a whole.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - 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 net assets presents the financial condition of the governmental and business-type activities of the City at year end along with the discretely presented component units. 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 and are designed to present financial information at a more detailed level. The focus of governmental and proprietary statements is on major funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor 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, 2008

NOTE 1 - 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 nonoperating 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

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 - 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. The following are major governmental funds:

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.

Community Development (Special Revenue Fund): This fund was 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.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 - 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 and Sewer Fund are major funds) 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, 2008

NOTE 1 - 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.

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, 2008

NOTE 1 - 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; nonuniformed 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 nonuniformed 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, 2008

NOTE 1 - 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.

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, 2008

NOTE 1 - 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, 2008

NOTE 1 - 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 2 - 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 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, 2008, the carrying amount of the City's deposits was \$43,368,263 and the bank balance was \$46,008,364. Of the balance, \$1,216,829 was covered by federal depository insurance and \$44,791,535 was exposed to custodial credit risk.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2008, the City had the following nonpension investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2008			
		0-3 Years	4-7 Years	8-10 Years	11 plus Years
Federal Home Loan Bk	\$ 717,149	\$ 413,117	\$ 153,141	\$ 150,891	\$ -
Federal Home Loan Mtg Corp	690,097	496,424	193,673	-	-
Federal Natl Mtg Assn	648,954	500,313	148,641	-	-
US Treasury Nts	1,597,079	785,953	811,126	-	-
US Treasury Bds	36,789	-	-	36,789	-
	3,690,068	<u>\$2,195,807</u>	<u>\$ 1,306,581</u>	<u>\$ 187,680</u>	<u>\$ -</u>
Money Market Funds	3,186,426				
Pooled Cash	351,374				
Certificates of Deposits	330,882				
	<u>\$ 7,558,750</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, 2008, the City's investments were rated as:

Investments	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	AAA
US Treasury Bds	AAA

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 - 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, Capital Projects Fund, Proprietary Funds (Internal Service), and Fiduciary Funds (Earned Income Tax). These investments are 8.6%, 43.4%, 11.2% and 30.9%, respectively, of the City's total investments. More than 5% of the City's total governmental funds include the General Fund Capital Projects and Nonmajor Funds (Agency), at 37.6%, 49.2% and 13.1%, respectively. In the business-type activities, more than 5% of the investments are in the Proprietary Funds (Internal Service). These investments are 93.8% of total business-type investments.

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. As of December 31, 2008, the carrying amount of the City's investments was \$7,558,750. Of the balance, \$601,573 was covered by federal depository insurance, \$351,374 was invested in pooled funds, and \$6,605,803 was exposed 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, 2008, the City had the following cash and investments in its pension trust funds:

<u>Police</u>	Fair Market Value	Investment Maturities from December 31, 2008			
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years
Cash or Investment Type					
Corporate Bonds	\$ 6,506,414	\$ -	\$ 4,491,576	\$ 1,720,708	\$ 294,130
Government Bonds	23,353,913	3,315,757	13,897,011	4,409,807	1,731,338
Mortgage Backed Securities	72,711	-	72,711	-	-
Foreign Bonds	673,623	-	615,743	-	57,880
Gov't Asset Backed Securities	5,896,994	-	-	-	5,896,994
Total Debt Securities	36,503,655	\$ 3,315,757	\$ 19,077,041	\$ 6,130,515	\$ 7,980,342
Cash and Cash Equivalents	2,194,526				
Equity Mutual Funds	23,357,292				
Total Cash and Investments	\$ 62,055,473				

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Pension Trust Fund - continued

<u>Paid Firemen's</u>	Fair Market Value	Investment Maturities from December 31, 2008		
		0 - 5 years	5 - 10 years	More than 10 years
Cash or Investment Type				
Asset Backed	\$ 84,419	\$ 84,419	\$ -	\$ -
Corporate Bonds	1,329,790	495,226	540,272	294,293
Collateralized Mortgage Obligations	5,120,240	5,088,242	-	31,998
Foreign Bonds and Notes	523,446	449,366	20,884	53,196
Agency	850,100	470,293	343,143	36,664
Mortgage Backed	2,251,536	226,490	151,312	1,873,734
Other	1,194,044	1,194,044	-	-
Treasuries - Notes and Bonds	4,190,842	2,492,909	1,393,040	304,893
Total Debt Securities	15,544,417	\$ 10,500,989	\$ 2,448,651	\$ 2,594,778
Cash and Cash Equivalents	602,065			
Equity Mutual Funds	16,784,252			
Due to Brokers	(481,829)			
Total Cash and Investments	\$ 32,448,905			
	Fair Market Value	Investment Maturities from December 31, 2008		
<u>Officers & Employees</u>		0 - 5 years	5 - 15 years	More than 15 years
Cash and Cash Equivalents	\$ 5,078			
Fixed Funds	14,500,350			
Equity Funds	24,791,719			
Total Cash and Investments	\$ 39,297,147			

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, 2008, the pension trust funds' investment in corporate bonds ranged from AAA to BBB-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

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, 2008, \$500,000 was covered by federal depository insurance and \$133,301,525 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, 2008. 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.

Component Unit (Reading Parking Authority)

Cash is carried at cost and investments are carried at market. Cash and investments consist of the following at December 31, 2008:

Unrestricted	
Deposits	\$ 7,087,842
Petty cash	<u>10,098</u>
	<u>\$ 7,097,940</u>

Custodial Credit Risk

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 Authority does not have a policy for custodial credit risk. As of December 31, 2008, \$501,087 was covered by federal depository insurance and \$6,596,853 was exposed to custodial credit risk.

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2008, the Authority's investments were all rated as AAA by a nationally recognized rating organization.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. 36.7% of the Authority's investments are U S Treasury Strips and 63.3% are Resolution FDG Corp Fed 0% Cpn Strips for the year ended December 31, 2008.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Interest Rate Risk

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

Component Unit (Reading Redevelopment Authority)

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2008 was \$62,251 and the bank balance was \$66,742.

The Authority has funds invested with the Commonwealth of Pennsylvania's INVEST Program with a market value of \$1,493,499. The INVEST Program is an investment pool designed for local government and nonprofit groups. The INVEST Program funds are managed by the Pennsylvania Department of Treasury. The INVEST Programs authorized investments are limited to Federal Obligations, Repurchase Agreements with bank or nonbank financial institutions, and other debt instruments of banks, financial institutions and nonfinancial institutions that are authorized for the shareholder by Commonwealth of Pennsylvania statute.

Custodial Credit Risk

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 Authority does not have a policy for custodial credit risk. As of December 31, 2008, all of the bank balances were covered by FDIC insurance.

Interest Rate Risk

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

NOTE 3 - 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:

	<u>Major Enterprise</u>		Other Enterprise (Recycling)	Total Primary Government	<u>Component Units</u>	
	<u>Water</u>	<u>Sewer</u>			<u>Reading Parking Authority</u>	<u>Reading Redevelopment Authority</u>
Accounts receivable, gross	\$ 3,567,384	\$ 3,373,232	\$ 2,853,955	\$ 9,794,571	\$ 184,197	\$ 1,500
Less: allowance uncollectible accounts	<u>1,556,065</u>	<u>1,273,144</u>	<u>1,403,124</u>	<u>4,232,333</u>	<u>-</u>	<u>-</u>
Net accounts receivable	<u><u>\$ 2,011,319</u></u>	<u><u>\$ 2,100,088</u></u>	<u><u>\$ 1,450,831</u></u>	<u><u>\$ 5,562,238</u></u>	<u><u>\$ 184,197</u></u>	<u><u>\$ 1,500</u></u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

**NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE -
CONTINUED**

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 4 - 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, 2008:

	Primary Government			Component Units	
	City of Reading Sewer Fund	Reading Area Water Authority	Total	Reading Parking Authority	Reading Redevelopment Authority
Construction Account	\$ 27,991,878	\$ 19,249,101	\$ 47,240,979	\$ 3,500	\$ 8,948
Debt Service Account	-	1,479,575	1,479,575	46,203	22
Debt Service Reserve Account	-	3,962,743	3,962,743	5,118,471	-
Clearing Account	-	10,176	10,176	68	28
Other	-	150,552	150,552	1,087	15,724
Total	\$ 27,991,878	\$ 24,852,147	\$ 52,844,025	\$ 5,169,329	\$ 24,722

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows.

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 280,960	\$ -	\$ -	\$ 280,960
Construction in progress	2,187,435	1,924,301	-	4,111,736
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,468,395	1,924,301	-	4,392,696
Capital assets being depreciated:				
Buildings	28,462,920	-	-	28,462,920
Machinery and equipment	29,866,688	1,659,743	-	31,526,431
Improvements	11,633,546	2,154,144	-	13,787,690
Infrastructure	5,213,266	-	-	5,213,266
Totals at historical cost	75,176,420	3,813,887	-	78,990,307
Less accumulated depreciation for:				
Buildings	12,811,450	609,348	-	13,420,798
Machinery and equipment	20,498,676	2,067,983	-	22,566,659
Improvements	2,613,617	529,057	-	3,142,674
Infrastructure	2,648,612	160,380	-	2,808,992
Total accumulated depreciation	38,572,355	3,366,768	-	41,939,123
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	36,604,065	447,119	-	37,051,184
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 39,072,460</u>	<u>\$ 2,371,420</u>	<u>\$ -</u>	<u>\$ 41,443,880</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 5 - 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	7,831,379	5,094,079	(6,132,114)	6,793,344
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	9,905,738	5,094,079	(6,132,114)	8,867,703
Capital assets being depreciated.				
Buildings	46,005,926	-	-	46,005,926
Machinery and equipment	13,911,472	1,502,194	-	15,413,666
Improvements	74,375,632	5,576,343	-	79,951,975
Totals at historical cost	134,293,030	7,078,537	-	141,371,567
Less accumulated depreciation for:				
Buildings	22,578,724	907,943	-	23,486,667
Machinery and equipment	9,729,182	785,681	-	10,514,863
Improvements	30,343,963	2,302,589	-	32,646,552
Total accumulated depreciation	62,651,869	3,996,213	-	66,648,082
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	71,641,161	3,082,324	-	74,723,485
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 81,546,899</u>	<u>\$ 8,176,403</u>	<u>\$ (6,132,114)</u>	<u>\$ 83,591,188</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 5 - CAPITAL ASSETS - CONTINUED

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Component Unit - Reading Parking Authority				
Capital assets not being depreciated:				
Land	\$ 2,359,086	\$ 76,459	\$ -	\$ 2,435,545
Construction in progress	-	331,218		331,218
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,359,086	407,677	-	2,766,763
Capital assets being depreciated:				
Buildings	45,833,092	87,026	(11,218)	45,908,900
Machinery and equipment	1,356,919	52,155	-	1,409,074
Improvements	144,620	-	-	144,620
Totals at historical cost	47,334,631	139,181	(11,218)	47,462,594
Less accumulated depreciation for:				
Buildings	15,586,708	1,143,772	(11,218)	16,719,262
Machinery and equipment	898,898	90,709	-	989,607
Improvements	105,207	5,239	-	110,446
Total accumulated depreciation	16,590,813	1,239,720	(11,218)	17,819,315
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	30,743,818	(1,100,539)	-	29,643,279
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$ 33,102,904</u>	<u>\$ (692,862)</u>	<u>\$ -</u>	<u>\$ 32,410,042</u>

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

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,348,650	Water system	\$ 1,798,723
Public safety:		Sewer system	2,127,258
Police	685,052	Recycling	70,232
Fire	456,701		
Public works - highway/streets	168,679		<u>\$ 3,996,213</u>
Community development	196,372		
Culture and recreation	511,314		
	<u>\$ 3,366,768</u>		

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2008:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 13,241,557	\$ 7,300,425 *
Community Development	251,721	1,920,507
Capital Projects	2,929,629	1,216,790
Debt Service	138,502	-
Nonmajor Governmental Funds	408,336	2,287,207
Internal Service	1,663,792	2,688,583
Business-Type Activities		
Major Funds		
Water	2,710,987	6,254,544
Sewer	1,983,805	4,111,445
Nonmajor Proprietary Funds	338,888	2,542,075
	<u>23,667,217</u>	<u>28,321,576</u>
Fiduciary and Agency Funds	<u>5,209,089</u>	<u>554,730</u>
	<u>\$ 28,876,306</u>	<u>\$ 28,876,306</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, 2008

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2008:

Major Funds:		
General	\$ 6,283,677	\$ 1,505,105
Capital Projects	-	40,655
Debit Service	13,820	-
Nonmajor Governmental Funds	-	4,647
Internal Service Funds	3,242,375	-
Business-Type Activities		
Major Funds:		
Water	-	3,959,737
Sewer	-	4,029,728
	<u>\$ 9,539,872</u>	<u>\$ 9,539,872</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

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CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LIABILITIES

Governmental Activities	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable</u>					
Obligation under agreement with Washington County Authority, Municipal Facilities Lease Revenue Bonds, Series 1985A-1 through 1985C-1, Subseries B The bonds were currently refunded in 2008	\$ 6,400,000	\$ -	\$ 6,400,000	\$ -	\$ -
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 The bonds were currently refunded in 2008	1,344,270	-	1,344,270	-	-
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	25,455,000	-	190,000	25,265,000	575,000
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 The bonds were advance refunded in 2008	11,391,064	-	11,391,064	-	-
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 The note was advance refunded in 2008	13,247,603	-	10,677,603	2,570,000	-
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 A portion of the bonds were advance refunded in 2008	47,850,000	-	14,945,000	32,905,000	-
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	3,672,002	4,327,998	5,000	7,995,000	7,995,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LIABILITIES - CONTINUED

Governmental Activities	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable</u>					
General Obligation Bonds, Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs	-	13,575,449	-	13,575,449	337,904
General Obligation Bonds, Series of A of 2008, 4.46% interest payable through 2018. Proceeds were used to currently refund the Washington County Authority lease revenue bonds and pay bond issuance costs	-	5,525,000	315,000	5,210,000	425,000
General Obligation Bonds, Series of B of 2008, 3.17% interest payable through 2010. Proceeds were used to currently refund the York General Authority revenue bonds and pay bond issuance costs	-	942,570	-	942,570	492,550
General Obligation Bonds, Series of C, D & E of 2008, variable interest payable through 2033. Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs	-	41,277,979	336,083	40,941,896	230,000
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	6,323,062	-	181,176	6,141,886	193,647
Capital lease payable to the Redevelopment Authority with 2.5% - 4.25% interest payable through 2033. Proceeds used to finance construction of public waste facility	3,805,000	-	95,000	3,710,000	95,000
Compensated absences	880,031	187,474	-	1,067,505	-
TOTAL	120,368,032	65,836,470	45,880,196	140,324,306	10,344,101
Less: unamortized interest on Capital Appreciation Bonds	(11,035,356)	-	(2,925,455)	(8,109,901)	(24,489)
Total Governmental Activities	\$ 109,332,676	\$ 65,836,470	\$ (42,954,741)	\$ 132,214,405	\$ 10,319,612

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LIABILITIES - CONTINUED

<u>Business-Type Activities</u> <u>Bonds and Notes Payable</u>	<u>Balance at</u> <u>Beginning</u> <u>of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>at End</u> <u>of Year</u>	<u>Due</u> <u>Within</u> <u>One Year</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. The bonds were advance refunded in 2008.	\$ 7,633,936	\$ -	\$ 7,633,936	\$ -	\$ -
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. The bonds were advance refunded in 2008.	1,442,397	-	1,442,397	-	-
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1% payable through 2012.	5,361,889	-	1,296,286	4,065,603	1,309,308
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. The bonds were currently refunded in 2008.	8,375,730	-	8,375,730	-	-
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. The line of credit was currently refunded in 2008.	1,614,145	1,108,988	2,723,133	-	-
General Obligation Bonds, Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs.	-	32,224,551	-	32,224,551	802,096

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Business-Type Activities					
Bonds and Notes Payable - continued					
General Obligation Bonds, Series of B of 2008, 3 17% interest payable through 2010 Proceeds were used to currently refund the York General Authority revenue bonds and pay bond issuance costs.	-	5,706,430	-	5,706,430	2,814,450
General Obligation Bonds, Series of C, D & E of 2008, variable interest payable through 2033 Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs.	-	10,077,020	118,917	9,958,103	70,000
Note payable to bank with interest at a variable rate (0.9765% at December 31, 2003) Interest and principal payments due quarterly through 2011	284,735	-	82,943	201,792	87,156
Note payable to Pennsylvania Infrastructure Investment Authority, 3.2% - 4% interest payable through 2018	1,818,132	-	150,935	1,667,197	157,080
Guaranteed Water Revenue Bonds, Series of 2002, 1.4% - 4.4% interest payable through 2017	2,255,000	-	190,000	2,065,000	195,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020	21,080,000	-	-	21,080,000	-
Guaranteed Water Revenue Bonds, Series of 2007, 4.25% - 5% interest payable through 2027	25,000,000	-	-	25,000,000	-
	<u>74,865,964</u>	<u>49,116,989</u>	<u>22,014,277</u>	<u>101,968,676</u>	<u>5,435,090</u>
Less: unamortized interest on Capital Appreciation Bonds	<u>(6,679,135)</u>	<u>-</u>	<u>(607,697)</u>	<u>(6,071,438)</u>	<u>-</u>
TOTAL	<u>\$ 68,186,829</u>	<u>\$ 49,116,989</u>	<u>\$ 21,406,580</u>	<u>\$ 95,897,238</u>	<u>\$ 5,435,090</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LIABILITIES - CONTINUED

<u>Component Unit - Reading Parking Authority:</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>
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.	35,850,000	-	2,765,000	33,085,000	2,755,000
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 was drawn as needed to pay construction expenses. The note is 3.9% per annum through 2014, and repayment is in 2024.	1,570,000	-	-	1,570,000	-
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 was drawn as needed to pay construction expenses. The note is 3.9% per annum through 2018, and repayment is in 2024.	9,920,000	-	75,000	9,845,000	90,000
Guaranteed Parking Revenue note payable to a local bank for \$8,635,000. \$70,000 was drawn on the note as of December 31, 2008, and the balance will be drawn as needed to pay construction expenses. The note is 4.68% through 2015, and repayment begins in 2010.	-	70,000	-	70,000	-
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 noninterest bearing in 30 annual payments of \$26,667. Payment only made when cash flow is available.	800,000	-	-	800,000	-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 7 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<u>Component Unit - Reading Parking Authority - continued</u>					
<u>Other Long-Term Debt - continued</u>					
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	1,076,295	-	47,099	1,029,196	73,495
Note payable to City of Reading which is noninterest bearing with annual principal payments of \$1,000 through 2074	68,221	-	-	68,221	4,000
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	219,678	76,459	7,754	288,383	6,097
	49,504,194	146,459	2,894,853	46,755,800	2,928,592
Less: unamortized interest on Capital Appreciation Bonds	(11,371,176)	-	(1,456,923)	(9,914,253)	-
Total Long-Term Liabilities	<u>\$ 38,133,018</u>	<u>\$ 146,459</u>	<u>\$ 1,437,930</u>	<u>\$ 36,841,547</u>	<u>\$ 2,928,592</u>
<u>Component Unit - Reading Redevelopment Authority</u>					
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. There is a lease receivable from the City to fund the repayment of this issue.	\$ 3,805,000	\$ -	\$ 95,000	\$ 3,710,000	\$ 95,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 7 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2008 are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 10,249,101	\$ 5,126,838	\$ 5,435,090	\$ 2,818,776
2010	2,091,776	4,883,934	5,433,513	3,552,306
2011	3,840,575	4,823,589	3,917,134	4,002,381
2012	3,921,537	4,697,260	4,195,130	5,044,519
2013	5,007,369	4,545,140	3,398,914	4,966,354
2014 - 2018	26,784,633	21,578,544	18,402,943	23,474,351
2019 - 2023	20,206,008	18,573,174	21,876,205	16,650,989
2024 - 2028	22,910,740	13,181,271	23,624,806	7,709,156
2029 - 2033	40,535,062	6,049,067	15,684,941	2,596,575
2034 - 2038	-	-	-	-
2039 - 2043	-	-	-	-
2044 - 2048	-	-	-	-
2049 - 2053	-	-	-	-
2054 - 2058	-	-	-	-
2059 - 2063	-	-	-	-
2064 - 2068	-	-	-	-
2069 - 2073	-	-	-	-
2074	-	-	-	-
Unscheduled	-	-	-	-
Less unamortized interest	(8,109,901)	-	-	-
Less capital lease interest	-	-	(6,071,438)	-
	<u>\$ 127,436,900</u>	<u>\$ 83,458,817</u>	<u>\$ 95,897,238</u>	<u>\$ 70,815,407</u>

The Reading Area Water Authority has an unused letter of credit of \$800,000 as of December 31, 2008

Component Units			
Reading Parking Authority		Reading Redevelopment Authority	
Principal	Interest	Principal	Interest
\$ 2,942,495	\$ 807,769	\$ 95,000	\$ 140,964
2,990,242	845,793	100,000	138,589
2,985,989	840,411	100,000	135,964
2,968,247	834,834	105,000	133,339
2,980,204	829,725	110,000	130,504
14,800,019	1,733,497	590,000	601,233
14,635,000	4,609,772	700,000	488,480
1,720,000	1,016,463	855,000	335,166
78,333	-	1,055,000	138,338
5,000	-	-	-
5,000	-	-	-
5,000	-	-	-
5,000	-	-	-
5,000	-	-	-
5,000	-	-	-
5,000	-	-	-
5,000	-	-	-
5,000	-	-	-
221	-	-	-
800,000	-	-	-
(9,914,253)	-	-	-
(184,950)	-	-	-
<u>\$ 36,841,547</u>	<u>\$ 11,518,264</u>	<u>\$ 3,710,000</u>	<u>\$ 2,242,577</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LIABILITIES - CONTINUED

Defeasance of Debt:

During the year ended December 31, 2008, the City issued variable rate general obligation refunding bonds Series C, D & E of 2008 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of general obligation bonds Series of 2002, a portion of the general obligation notes Series of 2005, and a portion of the federally taxable general obligation bonds series of 2006. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets

As of December 31, 2008, outstanding general obligation bonds of the City in the amount of \$40,520,000 were considered defeased with a related \$43,206,558 held in escrow funds.

NOTE 8 - 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.

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, 2008 are included in the following table.

Product Type	Original/ Outstanding Notional	Effective Date	Maturity Date	Underlying Index	Market Value
Not Active SWAPTION *	\$ 18,595,000	5/15/2012	11/15/2019	USD/Floating/BMA/1W USD/Fixed 5 097%	\$ (1,585,611)
SWAP	25,000,000	11/3/2009	11/1/2029	USD/Floating - 72% of 30 day LIBOR USD/Fixed 5 35%	(10,184,673)
SWAP	37,940,000	5/1/2009	11/1/2014	USD/Floating - 30 day LIBOR USD/Fixed 4 053%	(3,433,725)
SWAP	21,080,000	7/1/2005	11/1/2020	USD/Floating - 67% of 30 day LIBOR USD/Floating/BMA/1W	(808,532)

* This swaption was amended subsequent to year-end to convert the floating rate paid by the financial institution from the BMA index to 102 38% of 90 day LIBOR.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS - CONTINUED

Market Value

The market values as of December 31, 2008 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 counterparty, is Aa1, 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.

During the year, the City terminated two swaps for a total cost of \$13,211,300, including the termination fees and consulting costs. During the year, the Reading Area Water Authority terminated a swap and received a payment of \$501,100.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 9 - CITY OF READING RETIREMENT PLANS

Plan Descriptions. 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 Nonuniformed Employees' Pension Plan (NEPP). Each plan provides retirement, disability and death benefits to plan members and beneficiaries. PA Act 205 and City Council ordinance assign the authority to establish and amend benefit provisions to the Board of Trustees of each retirement plan. 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.

Funding Policy and Annual Pension Cost. The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the City. The City's annual pension cost for the current year and related information for each plan is as follows:

	PPP	PFPP	NEPP
Contribution rates:	Minimum Municipal Obligation under PA Act 205		
City			
Plan members	5% plus \$1 per month	5% plus \$5 per month	3%
Annual pension cost	\$ 1,705,470	\$ 1,289,485	\$ 598,539
Contributions made	1,705,470	1,300,247	626,961

Actuarial methods and assumptions. The following is information as of the most recent actuarial valuation:

	PPP	PFPP	NEPP
Valuation Date	01/01/07	01/01/07	01/01/07
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar, Open	Level Dollar, Closed	Level Dollar, Open
Remaining Amortization Period	23 Years	20 Years	18 Years
Asset Valuation Method	Market Value	Market Value as Determined by Trustees	Fair Market Value
Actuarial Assumptions			
Investment Rate of Return	7.5%	8%	8%
Projected Salary Increases	5%	6%	5%
Includes Inflation - at	-	Included in Rates Above	3%
Cost of Living Adjustment	-	-	-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 9 - CITY OF READING RETIREMENT PLANS - CONTINUED

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2006	\$ 3,496,057	100%
2007	3,203,156	33%
2008	1,705,470	100%
FIREMEN'S PENSION FUND		
2006	1,268,949	100%
2007	1,209,423	44%
2008	1,289,485	100%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2006	1,650,339	100%
2007	616,822	0%
2008	598,539	100%

Funded Status and Funding Progress The funded status of each plan as of January 1, 2007, the most recent actuarial valuation date is as follows:

	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)
PPP	\$ 81,188,059	\$ 88,275,688	\$ 7,087,629	92 00%	\$ 11,186,195	63 36%
PFPP	47,326,524	48,343,372	1,016,848	97 90%	7,187,428	14 10%
NEPP	57,572,084	57,081,669	(490,415)	100 86%	14,190,597	(3 50)%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 10 - POST EMPLOYMENT BENEFITS

Plan Description:

The City of Reading sponsors a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides lifetime healthcare and life insurance for eligible retirees and their dependents through the City's health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation with the City and the unions representing the City's employees. The Retiree Health Plan does not issue a publicly available financial report and the City is implementing GASB Statement 45 prospectively.

Funding Policy:

Contribution requirements also are negotiated between the City and union representatives. The required contribution is based on pay as you go financing. For nonuniform employees retired prior to 2004, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For nonuniform employees retired after 2004 to current, the retired plan member pays the retiree contribution rate supplied by the City, and the balance of the remaining premium is paid by the City. For fire department employees the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired prior to 2007, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired after 2007 to current, the retired plan member pays the retiree contribution rate supplied by the City, and the balance of the remaining premium is paid by the City. For the fiscal year ended December 31, 2008, the City contributed \$1,481,495 to the plan related to retirees.

Annual OPEB Cost and Net OPEB Obligation.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 2,587,893
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	2,587,893
Contributions made	(1,481,495)
Increase in net OPEB obligation	1,106,398
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 1,106,398

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 10 - POST EMPLOYMENT BENEFITS - CONTINUED

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of December 31, 2008 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2008	\$ 2,587,895	57.2%	\$ 1,106,398

Funded Status and Funding Progress:

As of January 1, 2009, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$26,676,711, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,676,711. The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAAL to the covered payroll was 0.0%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% initially, decreasing 1.0% per year to an ultimate rate of 5% in 2015 and later. The unfunded actuarial accrued liability is being amortized at the end of the year based on level dollar and a thirty year open amortization period.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 11 - 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 14.

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 approximately 90% of the total labor force. The collective bargaining agreement with AFSCME - The American Federation of State, County and Municipal Employees expired on December 31, 2007 and an extension was finalized through December 31, 2011. 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 will be in effect through December 31, 2010.

The City has entered into contracts for capital improvements related to the wastewater treatment plant. At December 31, 2008, the balance of open contracts is \$17,609,751.

The Reading Area Water Authority has entered into several contracts for capital improvements. At December 31, 2008, the balance of open contracts is \$885,000.

NOTE 12 - 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	2007	
		Limit	Deductible
Property	St. Paul Travelers	\$ 205,675,204	\$ 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	4,507,915	10,000
Excess Liability	St. Paul Travelers	4,000,000	10,000
Law Enforcement	Scottsdale	2,000,000	150,000
Employment Practices	Scottsdale	1,000,000	150,000
Public Officials	Scottsdale	2,000,000	100,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 12 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

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 police claims that exceed \$1,000,000 and all other 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 \$2,008,467.

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, 2008. An analysis of claims activity is presented below.

	Beginning of Year Liabilities	Estimated Current Year Claims	Actual Claim Payments	Balance at Fiscal Year End
2008	\$ 2,269,489	\$ 3,242,375	\$ 3,378,075	\$ 2,133,789

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, 2008 was \$8,998,293.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 13 - 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 \$11,300,930, 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.

NOTE 14 - 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 projects were completed at December 31, 2008, and the remaining liability represents costs to be incurred in future periods for the maintenance of these projects.

Civil penalty	\$ 239,000
SEP expenses	<u>733,000</u>
	972,000
Expense paid	<u>(892,000)</u>
Estimated expense still outstanding	<u><u>\$ 80,000</u></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. The first and second installment of \$250,000 was paid for the years ended December 31, 2007 and 2008, respectively.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 15 - SUBSEQUENT EVENT

In January, 2009, the City adopted a line of credit tax and revenue anticipation note for \$3,000,000 as an advance for tax revenues that will be received during the 2009 year

In February, 2009, the City amended a swap agreement; see Note 8 for more information on event.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2008

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Real estate taxes	\$ 15,430,579	\$ 15,430,579	\$ 15,221,298	\$ (209,281)
Act 511 taxes	18,145,258	18,145,258	15,527,403	(2,617,855)
Licenses, permits and fines	4,859,590	4,859,590	5,345,445	485,855
Intergovernmental	5,256,800	5,256,800	5,947,538	690,738
Charges for services	7,654,820	7,654,820	6,166,168	(1,488,652)
Interest and rent	1,799,892	1,799,892	1,425,607	(374,285)
Other	2,998,096	2,998,096	6,754,440	3,756,344
TOTAL REVENUES	56,145,035	56,145,035	56,387,899	242,864
Expenditures:				
Current:				
General government	8,478,470	8,507,970	8,197,620	310,350
Public safety				
Police	25,573,648	25,573,648	24,766,730	806,918
Fire	11,824,669	11,813,669	11,379,791	433,878
EMS	3,587,176	3,598,176	3,702,026	(103,850)
Public works: highways and streets	1,406,879	1,406,879	1,275,775	131,104
Public works: other	6,998,124	6,998,124	6,754,079	244,045
Community development	549,390	544,890	526,671	18,219
Culture and recreation	1,402,627	1,402,627	1,366,546	36,081
Other	701,403	806,403	809,930	(3,527)
Debt service - principal	4,622,333	4,497,333	1,523,961	2,973,372
Debt service - interest	4,373,481	4,373,481	4,391,723	(18,242)
TOTAL EXPENDITURES	69,518,200	69,523,200	64,694,852	4,828,348
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,373,165)	(13,378,165)	(8,306,953)	5,071,212
OTHER FINANCING SOURCES (USES)				
Forward bond sale	5,000,000	5,000,000	-	(5,000,000)
Bond proceeds	-	-	13,856,749	13,856,749
Bond discount	-	-	(250,364)	(250,364)
Swap termination fees	-	-	(13,211,300)	(13,211,300)
Operating transfers in	12,185,000	12,185,000	6,283,677	(5,901,323)
Operating transfers out	(1,627,945)	(1,622,945)	(1,505,105)	117,840
TOTAL OTHER FINANCING SOURCES (USES)	15,557,055	15,562,055	5,173,657	(10,388,398)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 2,183,890	\$ 2,183,890	(3,133,296)	\$ (5,317,186)
FUND BALANCE, BEGINNING OF YEAR			6,647,298	*
FUND BALANCE, END OF YEAR			\$ 3,514,002	

* Adjusted by \$2,550,000 for prior year meter surcharge due from the Reading Area Water Authority

CITY OF READING

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - RETIREMENT PLANS

December 31, 2008

I. SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial 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						
01/01/03	\$ 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%
01/01/07	81,188,059	88,275,688	7,087,629	92 0%	11,186,195	63 36%
PAID FIREMEN'S PENSION FUND						
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%
01/01/07	47,326,524	48,343,372	1,016,848	97 9%	7,187,428	14 1%
OFFICERS' AND EMPLOYEES' PENSION FUND						
01/01/03	\$ 37,920,154	\$ 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%
01/01/07	57,572,084	57,081,669	(490,415)	100 86%	14,190,597	(3 5%)

II. SCHEDULES OF EMPLOYER CONTRIBUTIONS

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2006	\$ 3,496,057	100%
2007	3,203,156	33%
2008	1,705,470	100%
FIREMEN'S PENSION FUND		
2006	\$ 1,268,949	100%
2007	1,209,423	44%
2008	1,289,485	100%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2006	\$ 1,650,339	100%
2007	616,822	0%
2008	598,539	105%

CITY OF READING

SCHEDULE OF FUNDING PROGRESS -
POST EMPLOYMENT BENEFITS PLAN

December 31, 2008

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Business-Type Activities	1/1/2009	\$ -	\$ 1,873,512	\$ 1,873,512	0.00%	\$ -	0.00%
Government Activities	1/1/2009	-	24,803,199	24,803,199	0.00%	-	0.00%
Total	1/1/2009	\$ -	\$ 26,676,711	\$ 26,676,711	0.00%	\$ -	0.00%

CITY OF READING

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2008

NOTE 1 - 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.

SUPPLEMENTARY INFORMATION

CITY OF READING

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

Year Ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance
REAL ESTATE TAXES	\$ 15,430,579	\$ 15,430,579	\$ 15,221,298	\$ (209,281)
ACT 511 Taxes				
Per capita tax	90,000	90,000	73,695	(16,305)
Per capita tax - prior years	10,000	10,000	12,163	2,163
Real estate transfer tax	7,215,868	7,215,868	4,003,296	(3,212,572)
Earned income tax	8,134,390	8,134,390	8,645,185	510,795
Occupation tax	1,000,000	1,000,000	894,129	(105,871)
Occupation tax - prior years	100,000	100,000	281,178	181,178
Business privilege tax	1,420,000	1,420,000	1,363,909	(56,091)
Business privilege tax - prior years	175,000	175,000	253,848	78,848
Total Act 511 Taxes	18,145,258	18,145,258	15,527,403	(2,617,855)
LICENSES, PERMITS AND FINES				
Food permits	52,000	52,000	58,937	6,937
Building and electrical	720,000	720,000	1,560,323	840,323
Trades licenses	90,000	90,000	132,510	42,510
Business privilege	285,000	285,000	301,467	16,467
Street and pavement	55,100	55,100	67,809	12,709
Zoning and land development	107,790	107,790	208,944	101,154
Housing	800,000	800,000	619,118	(180,882)
Tax administration licenses	21,500	21,500	17,533	(3,967)
Franchise fees	700,000	700,000	670,282	(29,718)
No parking signs	1,600	1,600	2,220	620
Traffic fines	470,000	470,000	487,805	17,805
Penalties and interest	81,000	81,000	115,827	34,827
District court	975,000	975,000	1,049,673	74,673
Pre-settlement inspection fee	-	-	(50)	(50)
Other	500,600	500,600	53,047	(447,553)
Total Licenses, Permits and Fines	4,859,590	4,859,590	5,345,445	485,855
INTERGOVERNMENTAL				
Payments in lieu of taxes	100,000	100,000	91,476	(8,524)
Malt and liquor tax	45,000	45,000	42,500	(2,500)
Public utility tax	51,000	51,000	45,976	(5,024)
Snow and ice control	50,000	50,000	56,595	6,595
Reading Public Library	900,000	900,000	900,000	-
School guard	250,000	250,000	215,516	(34,484)
Pension - state aid	3,205,800	3,205,800	3,307,410	101,610
Volunteer Fire Relief Aid	-	-	94,347	94,347
Police training	130,000	130,000	164,955	34,955
Grant reimbursement - police	525,000	525,000	908,016	383,016
Grant reimbursement - public works	-	-	120,747	120,747
Total Intergovernmental	5,256,800	5,256,800	5,947,538	690,738

CITY OF READING

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

Year Ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
Recreational facilities	26,170	26,170	53,653	27,483
Swimming pool	41,000	41,000	49,531	8,531
Pagoda and tower	4,000	4,000	8,292	4,292
School district tax collection	675,000	675,000	507,896	(167,104)
Tax certifications	80,000	80,000	54,604	(25,396)
Admissions fee/tax	550,000	550,000	553,315	3,315
Police services	384,200	384,200	246,486	(137,714)
Fire services	290,150	290,150	546,571	256,421
Ambulance services	3,132,550	3,132,550	3,023,611	(108,939)
Housing Authority	110,000	110,000	126,243	16,243
Redevelopment Authority	18,000	18,000	-	(18,000)
Public works	115,000	115,000	78,704	(36,296)
Meter surcharge	2,125,000	2,125,000	850,008	(1,274,992)
Other	103,750	103,750	67,254	(36,496)
Total Charges for Service	7,654,820	7,654,820	6,166,168	(1,488,652)
INTEREST AND RENT				
Interest on investments	352,892	352,892	258,099	(94,793)
CD bond interest	145,000	145,000	266,638	121,638
Stadium rental	22,000	22,000	11,000	(11,000)
Building rental	55,000	55,000	70,326	15,326
Parking Authority	950,000	950,000	497,827	(452,173)
Greater Berks	275,000	275,000	321,717	46,717
Total Interest and Rent	1,799,892	1,799,892	1,425,607	(374,285)
OTHER				
Sale of city property	20,000	20,000	4,013,193	3,993,193
Refund of prior year expenses	88,000	88,000	287	(87,713)
Recovery of damages	35,000	35,000	22,573	(12,427)
Indirect cost reimbursement:				
Community development	260,000	260,000	151,730	(108,270)
Recycling	93,402	93,402	167,579	74,177
Sewer	700,000	700,000	992,767	292,767
Water	580,000	580,000	706,885	126,885
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	336,000	336,000	282,933	(53,067)
Direct cost reimbursement - community development	105,000	105,000	41,476	(63,524)
Direct cost reimbursement - pension	32,500	32,500	27,859	(4,641)
Direct cost reimbursement - sewer	290,000	290,000	142,376	(147,624)
Grants and gifts	288,394	288,394	12,219	(276,175)
Other shared revenues	-	-	47,850	47,850
Miscellaneous	119,800	119,800	144,713	24,913
Total Other	2,998,096	2,998,096	6,754,440	3,756,344
TOTAL REVENUES	56,145,035	56,145,035	56,387,899	242,864

CITY OF READING

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

Year Ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance
OTHER FINANCING SOURCES				
Bond Proceeds	-	-	13,856,749	13,856,749
Bond Discount	-	-	(250,364)	(250,364)
Forward bond sale	5,000,000	5,000,000	-	(5,000,000)
Operating transfers in:				
1985 Bond Fund	-	-	9,799	9,799
Capital Reserve City	20,000	20,000	30,856	10,856
General Agency Fund	15,000	15,000	4,647	(10,353)
Water Fund	4,150,000	4,150,000	3,238,375	(911,625)
Sewer Fund	3,000,000	3,000,000	3,000,000	-
Total Other Financing Sources	<u>12,185,000</u>	<u>12,185,000</u>	<u>19,890,062</u>	<u>7,705,062</u>
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 <u>\$ 68,330,035</u>	 <u>\$ 68,330,035</u>	 <u>\$ 76,277,961</u>	 <u>\$ 7,947,926</u>

CITY OF READING

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

Year Ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personal services	\$ 227,008	\$ 222,008	\$ 209,592	\$ 12,416
Other operating expenditures	46,250	51,250	21,780	29,470
City Council				
Personal services	235,097	235,097	213,689	21,408
Other operating expenditures	63,600	63,600	37,004	26,596
City Auditor				
Personal services	133,739	133,739	128,045	5,694
Other operating expenditures	2,000	2,000	-	2,000
Office of the Managing Director				
Personal services	2,851,982	2,821,982	2,596,950	225,032
Other operating expenditures	1,456,301	1,468,301	1,303,814	164,487
Department of Finance:				
Treasury				
Personal services	181,992	181,992	195,571	(13,579)
Other operating expenditures	13,648	13,648	1,567	12,081
Office of the Director				
Personal services	315,953	309,953	336,722	(26,769)
Other operating expenditures	15,984	57,394	476,000	(418,606)
Purchasing				
Personal services	79,931	79,931	61,573	18,358
Other operating expenditures	318,787	331,377	347,127	(15,750)
Accounting				
Personal services	268,593	268,593	248,938	19,655
Other operating expenditures	5,700	5,200	5,086	114
Tax Administration				
Personal services	797,105	796,855	738,678	58,177
Other operating expenditures	117,800	118,050	111,480	6,570
Mailroom				
Personal services	39,939	39,939	3,047	36,892
Other operating expenditures	145,000	145,000	61,532	83,468
Information Technology				
Personal services	-	-	28,767	(28,767)
Other operating expenditures	-	-	-	-
Budget Administration				
Personal services	-	-	8,751	(8,751)
Other operating expenditures	-	-	-	-
Department of Human Resources				
Personal services	483,063	483,063	477,637	5,426
Other operating expenditures	91,500	91,500	67,152	24,348
Department of Law				
Personal services	354,798	354,798	327,709	27,089
Other operating expenditures	232,700	232,700	189,409	43,291
TOTAL GENERAL GOVERNMENT	8,478,470	8,507,970	8,197,620	310,350

CITY OF READING

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

Year Ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance
PUBLIC WORKS				
Department of Public Works:				
Fleet Management				
Personal services	576,301	576,301	602,898	(26,597)
Other operating expenditures	1,022,400	1,005,100	1,163,995	(158,895)
Traffic Engineering				
Personal services	214,671	214,671	225,449	(10,778)
Other operating expenditures	97,234	114,604	284,627	(170,023)
Public Works Administration				
Personal services	162,706	162,706	157,161	5,545
Other operating expenditures	279,200	279,200	3,737	275,463
Engineering				
Personal services	244,046	244,046	232,257	11,789
Other operating expenditures	13,518	13,518	10,759	2,759
Streets				
Personal services	1,179,729	1,179,729	1,083,229	96,500
Other operating expenditures	227,150	227,150	192,546	34,604
Parks				
Personal services	1,151,812	1,151,812	1,088,465	63,347
Other operating expenditures	268,050	267,980	158,265	109,715
Recreation				
Personal services	636,355	654,355	637,074	17,281
Other operating expenditures	93,900	75,900	137,587	(61,687)
Public Property				
Personal services	576,331	576,331	548,634	27,697
Other operating expenditures	1,661,600	1,661,600	1,503,171	158,429
TOTAL PUBLIC WORKS	8,405,003	8,405,003	8,029,854	375,149
PUBLIC SAFETY				
Police - Criminal Investigation				
Personal services	4,302,405	4,302,405	3,760,737	541,668
Other operating expenditures	141,904	141,904	117,763	24,141
Police - Special Services				
Personal services	2,424,210	2,424,210	2,373,311	50,899
Other operating expenditures	502,478	485,478	280,958	204,520
Police - Patrol				
Personal services	17,076,853	17,076,853	17,092,389	(15,536)
Other operating expenditures	374,485	374,485	253,545	120,940
Police - Administration				
Personal services	657,048	657,048	812,248	(155,200)
Other operating expenditures	94,265	111,265	75,779	35,486
Fire Administration				
Personal services	620,927	620,927	607,734	13,193
Other operating expenditures	76,020	73,520	148,310	(74,790)
Fire Special Services				
Personal services	498,617	498,617	416,050	82,567
Other operating expenditures	87,260	73,260	54,400	18,860
Fire Suppression				
Personal services	10,101,755	10,115,755	9,809,719	306,036
Other operating expenditures	440,090	431,590	343,578	88,012
Fire EMS				
Personal services	2,829,334	2,829,334	2,973,300	(143,966)
Other operating expenditures	757,842	768,842	728,726	40,116
TOTAL PUBLIC SAFETY	40,985,493	40,985,493	39,848,547	1,136,946

CITY OF READING

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

Year Ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance
COMMUNITY DEVELOPMENT				
Planning				
Personal services	140,056	140,056	99,870	40,186
Other operating expenditures	7,150	7,150	2,867	4,283
Codes				
Personal services	402,184	397,684	423,934	(26,250)
Other operating expenditures	-	-	-	-
TOTAL COMMUNITY DEVELOPMENT	549,390	544,890	526,671	18,219
CULTURE AND RECREATION				
Library				
Personal services	1,277,627	1,277,627	1,270,855	6,772
Other operating expenditures	125,000	125,000	95,691	29,309
TOTAL CULTURE AND RECREATION	1,402,627	1,402,627	1,366,546	36,081
DEBT SERVICE				
Principal	4,622,333	4,497,333	1,523,961	2,973,372
Interest	4,373,481	4,373,481	4,391,723	(18,242)
TOTAL DEBT SERVICE	8,995,814	8,870,814	5,915,684	2,955,130
NONDEPARTMENTAL				
Payroll and benefits	357,243	337,243	259,397	77,846
Other	344,160	469,160	550,533	(81,373)
TOTAL NONDEPARTMENTAL	701,403	806,403	809,930	(3,527)
TOTAL EXPENDITURES	69,518,200	69,523,200	64,694,852	4,828,348
OTHER FINANCING USES				
Swap termination fees	-	-	13,211,300	(13,211,300)
Transfers to other funds	1,627,945	1,622,945	1,505,105	117,840
TOTAL OTHER FINANCING USES	1,627,945	1,622,945	14,716,405	(13,093,460)
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 71,146,145</u>	<u>\$ 71,146,145</u>	<u>\$ 79,411,257</u>	<u>\$ (8,265,112)</u>

CITY OF READING

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2008

	<u>Agency Fund</u>	<u>Liquid Fuels Fund</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 2,279,378	\$ 1,692,095	\$ 3,971,473
Investments	225,900	-	225,900
Accounts receivable	701,141	-	701,141
Interfund receivables	481,582	(73,246)	408,336
	<u>\$ 3,688,001</u>	<u>\$ 1,618,849</u>	<u>\$ 5,306,850</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 299,934	\$ 144,312	\$ 444,246
Interfund payables	1,477,104	810,103	2,287,207
Deferred revenue	1,192,586	-	1,192,586
	<u>2,969,624</u>	<u>954,415</u>	<u>3,924,039</u>
TOTAL LIABILITIES			
FUND BALANCES			
Unreserved	<u>718,377</u>	<u>664,434</u>	<u>1,382,811</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,688,001</u>	<u>\$ 1,618,849</u>	<u>\$ 5,306,850</u>

CITY OF READING

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

Year Ended December 31, 2008

	Agency Fund	Liquid Fuels Fund	Totals
REVENUES			
Intergovernmental	\$ 3,213,405	\$ 1,402,640	\$ 4,616,045
Interest and rent	165,439	13,076	178,515
TOTAL REVENUES	3,378,844	1,415,716	4,794,560
EXPENDITURES			
Public safety			
Police	942,241	-	942,241
Fire	160,793	-	160,793
Public works - highways and streets	-	1,131,309	1,131,309
Public works - other	181,041	-	181,041
Community development	2,604,366	-	2,604,366
TOTAL EXPENDITURES	3,888,441	1,131,309	5,019,750
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(509,597)	284,407	(225,190)
OTHER FINANCING USES			
Operating transfers out	(4,647)	-	(4,647)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(514,244)	284,407	(229,837)
FUND BALANCES, BEGINNING OF YEAR	1,232,621	380,027	1,612,648
FUND BALANCES, END OF YEAR	\$ 718,377	\$ 664,434	\$ 1,382,811

CITY OF READING

COMBINING BALANCE SHEET - ALL CAPITAL PROJECTS FUNDS

December 31, 2008

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 1,902,076	\$ (427,111)	\$ 2,579,425	\$ 4,054,390
Investments	468,705	378,004	-	846,709
Interfund receivable	1,711,419	1,214,385	3,825	2,929,629
Intergovernmental receivable	823,032	-	-	823,032
Notes receivable - noncurrent	4,351,348	-	-	4,351,348
TOTAL ASSETS	\$ 9,256,580	\$ 1,165,278	\$ 2,583,250	\$ 13,005,108
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 585,439	\$ 585,439
Interfund payables	30,856	749,290	436,644	1,216,790
FUND BALANCES				
Reserved for capital project	9,225,724	415,988	1,561,167	11,202,879
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,256,580	\$ 1,165,278	\$ 2,583,250	\$ 13,005,108

CITY OF READING

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

Year Ended December 31, 2008

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
REVENUES				
Interest and rent	\$ 30,856	\$ 9,799	\$ 16,351	\$ 57,006
Other	-	-	200	200
	<u>30,856</u>	<u>9,799</u>	<u>16,551</u>	<u>57,206</u>
EXPENDITURES				
Capital outlays	-	-	2,941,789	2,941,789
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	30,856	9,799	(2,925,238)	(2,884,583)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	4,327,998	4,327,998
Operating transfers in/out	(30,856)	(9,799)	-	(40,655)
EXCESS (DEFICIENCY) OF REVENUES AND FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	-	1,402,760	1,402,760
FUND BALANCES, BEGINNING OF YEAR	<u>9,225,724</u>	<u>415,988</u>	<u>158,407</u>	<u>9,800,119</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,225,724</u>	<u>\$ 415,988</u>	<u>\$ 1,561,167</u>	<u>\$ 11,202,879</u>

CITY OF READING
COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2008

	<u>Police Pension Fund</u>	<u>Paid Firemen's Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Total Fiduciary Funds</u>
ASSETS				
Cash and cash equivalents	\$ 4,236,287	\$ 2,624,182	\$ 1,316,551	\$ 8,177,020
Investments	62,055,473	32,448,905	39,297,147	133,801,525
Interfund receivables	<u>1,054,474</u>	<u>537,686</u>	<u>-</u>	<u>1,592,160</u>
TOTAL ASSETS	67,346,234	35,610,773	40,613,698	<u>\$ 143,570,705</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	89,441	32,727	64,283	\$ 186,451
Interfund payable	<u>9,086</u>	<u>5,048</u>	<u>13,725</u>	<u>27,859</u>
TOTAL LIABILITIES	<u>98,527</u>	<u>37,775</u>	<u>78,008</u>	214,310
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 67,247,707</u>	<u>\$ 35,572,998</u>	<u>\$ 40,535,690</u>	143,356,395
TOTAL NET ASSETS AND LIABILITIES				<u>\$ 143,570,705</u>

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2008

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Fiduciary Funds
ADDITIONS				
Contributions				
Member, city and state contributions	\$ 2,563,157	\$ 1,733,841	\$ 1,152,188	\$ 5,449,186
Investment income				
Interest and dividends	3,477,350	1,201,540	6,993	4,685,883
Realized and unrealized gain on sale of investments	<u>(12,413,120)</u>	<u>(11,255,008)</u>	<u>(15,420,672)</u>	<u>(39,088,800)</u>
TOTAL ADDITIONS	(6,372,613)	(8,319,627)	(14,261,491)	(28,953,731)
DEDUCTIONS				
Benefits, including tax withheld	5,811,951	2,976,459	3,792,117	12,580,527
Administrative expenses	397,447	211,616	353,943	963,006
Refunds paid	<u>5,430</u>	<u>-</u>	<u>111,921</u>	<u>117,351</u>
TOTAL DEDUCTIONS	<u>6,214,828</u>	<u>3,188,075</u>	<u>4,257,981</u>	<u>13,660,884</u>
NET DECREASE	(12,587,441)	(11,507,702)	(18,519,472)	(42,614,615)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR				
	<u>79,835,148</u>	<u>47,080,700</u>	<u>59,055,162</u>	<u>185,971,010</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR				
	<u>\$ 67,247,707</u>	<u>\$ 35,572,998</u>	<u>\$ 40,535,690</u>	<u>\$ 143,356,395</u>

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2008

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	01/01/07-12/31/07	B07MC420013
CDBG	D	14 218	01/01/08-12/31/08	B08MC4-20013
ESG	D	14-231		S07MC420006
ESG	D	14-231		S08MC4-20006
Brownfields Economic Development Grant	D	14 926	11/01/02-12/01/07	B02BD420038
HOME Program	D	14-239		M05MC420204
HOME Program	D	14-239		M06MC420204
HOME Program	D	14-239		M07MC420204
HOME Program	D	14-239		M08MC420204
Fair Housing	D	14 401	10/01/06-09/30/07	FF203K073012
Fair Housing	D	14 401	10/01/07-09/30/08	FF203K083012
TOTAL U.S. DEPARTMENT OF HOUSING				
U.S. DEPARTMENT OF JUSTICE				
Weed and Seed	D	16 595	10/01/07-09/30/08	2007-WS-Q7-0071
222 Corridor Anti-Gang Initiative	I	16 744	06/01/06-05/31/09	2006-PG-BX-0099
Edward Byrne Memorial Justice Assistance Program	D	16 738	10/01/05-09/30/09	2006-DJ-BX-0287
Edward Byrne Memorial Justice Assistance Program	D	16 738	10/01/07-09/30/11	2008-DJ-BX-0396
Bulletproof Vest Partnership	D	16 607	01/01/06-12/31/06	2006
Bulletproof Vest Partnership	D	16 607	01/01/07-12/31/07	2007
Public Safety Partnership and Community Policing	D	16 710	12/08/04-12/07/07	2005-CK-WX-0217
SRO GREAT Program		16 737	06/01/08-11/30/09	2008-JV-FX-0018
COPS	D	16 710	12/26/07-12/25/10	2008-CK-WX-0171
COPS	D	16 710	12/26/07-12/25/10	2008-CK-WX-0255
TOTAL U.S. DEPARTMENT OF JUSTICE				
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Passed through Pennsylvania Emergency Management Agency				
Public Assistance Grants				
Public Assistance Grant Project #2912	I	97 036	11/13/06-12/31/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project	I	97 036		
Public Assistance Grant Project #2706	I	97 036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY				
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
Equal Employment Opportunity Commission	D	30 001	10/01/05-09/30/07	5FPSLP0271
Equal Employment Opportunity Commission	D	30 001	10/01/07-09/30/09	EECCN080035
TOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
TOTAL FEDERAL AWARDS				

^ - It is unknown whether this is federal funding

* - Balance decreased from prior year by \$14.972 for CDBG funds reimbursed by a different grant

Source Codes

I - Indirect

D - Direct

Total Award	PY Recognized	Accrued (Deferred) 12/31/07	Amount Received	Revenue Recognized	Expenditures	Accrued (Deferred) 12/31/08
\$ 3,174,833	\$ 776,955	\$ 277,228 *	\$ 2,565,187	\$ 2,397,878	\$ 2,397,878	\$ 109,919
3,050,743	-	-	241,632	518,088	518,088	276,456
137,325	17,661	9,399	113,140	119,664	119,664	15,923
136,792	-	-	-	15,611	15,611	15,611
1,100,000	1,100,000	14,972	14,972	-	-	-
1,059,048	858,262	322,062	457,373	176,325	176,325	41,014
999,170	-	-	549,333	549,333	549,333	-
992,956	-	-	893,660	893,660	893,660	-
962,215	-	-	-	-	-	-
90,800	47,016	47,016	90,800	43,784	43,784	-
151,780	-	-	-	-	-	-
		670,677	4,926,097	4,714,343	4,714,343	458,923
191,999	27,475	27,475	191,999	164,524	164,524	-
	153,689	83,585	207,356	226,225	226,225	102,454
87,324	27,780	(22,220)	-	-	-	(22,220)
43,212	-	-	-	-	-	-
15,466	15,466	-	-	-	-	-
25,399	25,399	25,399	25,399	-	-	-
295,993	295,993	-	-	-	-	-
73,483	-	-	-	675	675	675
1,169,125	-	-	-	262,695	262,695	262,695
607,945	-	-	-	-	-	-
		114,239	424,754	654,119	654,119	343,604
124,376	93,627	-	-	-	-	-
16,411	-	-	16,411	16,411	16,411	-
347,986	-	-	347,986	347,986	347,986	-
		-	364,397	364,397	364,397	-
105,200	6,958	6,958	-	-	-	6,958
27,370	-	-	27,370	2,960	2,960	(24,410)
		6,958	27,370	2,960	2,960	(17,452)
		<u>\$ 791,874</u>	<u>\$ 5,742,618</u>	<u>\$ 5,735,819</u>	<u>\$ 5,735,819</u>	<u>\$ 785,075</u>

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2008

NOTE 1 - 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 2 - 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>
Community Development Block Grant (CDBG)	14 218	\$ 306,115
Emergency Shelter Grant (ESG)	14 231	149,554
HOME Program	14 239	1,908,879



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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 units, each major fund, and the aggregate remaining fund information of the City of Reading, as of and for the year ended December 31, 2008, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated July 20, 2009. 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 08-1 through 08-11 in the Schedule of Findings and Questioned Costs.

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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 08-1 through 08-11 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 08-4, 08-5, 08-6, 08-8, and 08-9.

We also noted certain other matters that we reported to management of the City of Reading in a separate letter dated July 20, 2009

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 20, 2009



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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, 2008. 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 Nonprofit 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 08-2 and 08-3.

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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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-2 and 08-3 to be significant deficiencies.

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 deficiencies described above to be material weaknesses.

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 20, 2009

CITY OF READING
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2008

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
16.710	COPS Technology Program

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, 2008

Section II - Financial Statement Findings

08-1 MODIFIED ACCRUAL/FULL ACCRUAL BASIS OF ACCOUNTING

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting

Condition/Cause

The Accounting Department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous funds into compliance with U S generally accepted accounting principles

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S generally accepted accounting principles.

Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a routine basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

See corrective action plan included in this report package.

08-2 GRANT RECEIPTS

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.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2008

08-2 GRANT RECEIPTS - CONTINUED

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 enhance cash flow by more quickly drawing down reimbursement funds from HUD.

Management Response

See corrective action plan included in this report package.

08-3 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

Criteria

The process for the City to disburse funds includes a voucher payment request that is supposed to be approved by the initiating department and the Finance Department. The Managing Director also approves the voucher if a specific dollar threshold is met.

Condition/Cause

The disbursement process for authorizations is no longer being followed due to turnover in management positions and the need to timely disburse funds. The Assistant to the Finance Director has been given the responsibility to sign on behalf of numerous individuals, thus eliminating critical controls in the process.

Effect

The City no longer has an appropriate segregation of duties over cash disbursements. In addition, there is no documented evidence that management has reviewed numerous disbursements, and this makes the City more susceptible to misappropriation of assets.

Recommendation

We recommend that a process be implemented to enhance the control process for cash disbursements, which would include appropriate segregation of duties, management oversight, and timely payment of invoices.

Benefit

The City will enhance the control structure and reduce the risk of misappropriation of assets.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2008

08-4 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.

08-5 PENSION COMPLIANCE

Criteria

The City has made significant changes to the pension plans over the past several years. It is imperative that these changes are made in accordance with state code for third class cities and the City Charter.

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes.

Effect

The City has granted benefits that are out of compliance with state code and the City Charter. In addition, the City failed to remit minimum municipal obligations to the pension funds during 2007.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2008

08-5 PENSION COMPLIANCE - CONTINUED

Recommendation

State code and the City Charter should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Benefit

The City will be in compliance with governing documents related to pension.

Management Response

See corrective action plan included in this report package.

08-6 UNCLAIMED PROPERTY

Criteria

Pennsylvania Statute 72 P.S. 1301 requires an entity to annually file an unclaimed property report to be filed by April 15th.

Condition/Cause

Though the City timely filed the report for 2007 and 2008, there were outstanding items noted on the general ledger that should have been turned over to the state in accordance with the statute and were not.

Effect

The City was out of compliance with a state statute.

Recommendation

We recommend that the City evaluate all tax overpayments and outstanding checks to determine if there is unclaimed property to be remitted to the State.

Benefit

The City would be in compliance with State statute.

Management Response

See corrective action plan.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2008

08-7 SEGREGATION OF DUTIES - BANK RECONCILIATIONS

Criteria

Segregation of duties serves as a check and balance on employees' integrity and to maintain the best control system possible.

Condition/Cause

One individual is responsible for reconciling the two primary general fund checking accounts in addition to overseeing all general ledger functions.

Effect

Inadequate system of checks and balances poses a risk to the City's ability to accurately report its financial information and increases the City's susceptibility to misappropriation of assets.

Recommendation

We recommend that different individuals should perform the separate duties processing entries to the general ledger and performing bank reconciliation functions. At a minimum, we recommend having a knowledgeable individual review the bank reconciliations and the general ledger.

Benefit

An effective internal control system contains several checks and balances to reduce the risk of misappropriation of assets.

Management Response

See corrective action plan

08-8 DCED REPORTING REQUIREMENTS

Criteria

The Department of Community and Economic Development (DCED) establishes reporting requirements for municipalities. The City did not timely file all of the required reports.

Condition/Cause

We noted several overdue reports due to DCED in March, 2009, including 2007 Tax Information due on 1/16/07 and 2009 Tax Information due on 1/16/09.

Effect

The City was out of compliance with state requirements.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2008

08-8 DCED REPORTING REQUIREMENTS - CONTINUED

Benefit

The City would be in compliance with state statute.

Management Response

See corrective action plan.

08-9 PENSION IRS WITHHOLDINGS

Criteria

Pension payments are required by statute to have taxes withheld and timely turned over to the federal government.

Condition/Cause

IRS withholdings for the police pension fund were not remitted timely for the months of February and April, 2008.

Effect

The City was out of compliance with federal statutes.

Recommendation

We recommend that the City monitor with filing requirements and comply with filing deadlines.

Benefit

The City would be in compliance with federal statutes.

Management Response

See corrective action plan.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2008

08-10 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 2007, 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 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.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2008

08-11 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. The software has been utilized during this period, but there continues to be ongoing issues with understanding and properly using the software.

Effect

Billing adjustments need to continue to be made. The subsidiary ledger and bills generated should all agree. Data must be accurate to allow for proper financial reporting.

Recommendation

We recommend that policies and procedures be implemented and that all staff using the software receive appropriate training.

Benefit

It is important for City management to have a clearer understanding of the billing process and more accurate financial reporting.

Management Response

See corrective action plan included in this report package.

Section III - Federal Award Findings and Questioned Costs

08-2 Grant Receipt Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contracts BO7MC420013 and BO8MC420013

08-3 Cash Disbursements - Segregation of Duties Finding is also a Federal Award Finding which related to CDBG 14.218 program Contracts BO7MC420013 and BO8MC420013 and COPS Technology Program 16.710 Contract 2008-CK-WX-0171.

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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

Status of Prior Year Federal Award Findings and Questioned Costs

07-2 Grants Receipts Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contract BO5MC420013, BO6MC420013 and BO7MC420013.

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

In September 2007 policy and procedures were implemented to insure timely draw down of HUD funds. The CD Fiscal officer does monthly reconciliations between the IDIS system and the City's general ledger. This has significantly approved the timeliness and efficiency of all IDIS reporting to be more consistent with the general ledger.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 08-2.



07-3 Grant Tracking and Monitoring Finding is also a Federal Award Finding which related to Economic Development Initiatives 14.246 program - Contract B00ED420034 and B02BD420038.

Criteria

The City receives special funding for specific projects and uses the general ledger software to track project expenditures related to each funding source. These expenditure reports should be used to report the project status of the grants to the oversight agencies. There were project reports showing balances remaining on program contracts that were shown as unexpended at year-end. These contracts ended during the year, and based on discussion with the Community Development Department, all funds were expended during the project period.

Condition/Cause

The Community Development and Accounting Departments need to work together to communicate recording of expenditures to proper projects and funding sources on the general ledger, as well as to monitor the status of each contract to maintain compliance with grant requirements.

Effect

The City is not appropriately tracking expenditures related to grants in accordance with provisions of grant contracts and capabilities of the general ledger software.

Recommendation

The Community Development and Accounting Departments should work together to monitor grant compliance.

Benefit

The City will maintain compliance with grant requirements.

Management Response

A Grant Coordinator was hired to assist the Grant Accountant in monitoring the status and compliance of our grants. The grant coordinator will work with the Community Development Department and Grant Accountant to communicate recording of expenditures to proper projects and funding sources on the general ledger.

Current Status of Corrective Action Plan

Due to the consistent oversight by management personnel on the monitoring of grant compliance this finding has been resolved.



FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

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

July 20, 2009

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

Re: Corrective Action Plan 2008 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, 2008.

08-1 MODIFIED ACCRUAL/FULL ACCRUAL BASIS OF ACCOUNTING

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause

The Accounting Department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous funds into compliance with U.S. generally accepted accounting principles.

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S. generally accepted accounting principles.



Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a routine basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

The Accounting Division does reconcile receivables for all funds on a consistent and timely basis. However we rely on other departments/divisions for information to accurately reflect our receivables and because corrections are made by other department/divisions to customer's accounts, year end adjustments are needed to accurately reflect our receivable balance. The Finance Department is looking into creating a central billing department to handle all City customer accounts. This will ensure that proper recording of adjustments are made on a more consistent basis.

08-2 GRANT RECEIPTS

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 enhance cash flow by more quickly drawing down reimbursement funds from HUD.

Management Response

In September 2007 policy and procedures were implemented to insure timely draw down of HUD funds. The CD Fiscal officer does monthly reconciliations between the IDIS system and the City's general ledger. During the year the Community Development division completed many projects therefore increasing the amount of vouchers that needed to be drawn down. After reviewing the policy and procedures with the new CD Director we have amended the policy to have the reconciliation completed twice per month to reimburse the funds to the City and enhance our cash flow. This will significantly improve the timeliness and efficiency of all IDIS reporting to be more consistent with the general ledger.

08-3 CASH DISBURSEMENTS – SEGREGATION OF DUTIES

Criteria

The process for the City to disburse funds includes a voucher payment request that is supposed to be approved by the initiating department and the Finance Department. The Managing Director also approves the voucher if a specific dollar threshold is met.

Condition/Cause

The disbursement process for authorizations is no longer being followed due to turnover in management positions and the need to timely disburse funds. The Assistant to the Finance Director has been given the responsibility to sign on behalf of numerous individuals, thus eliminating critical controls in the process.

Effect

The City no longer has an appropriate segregation of duties over cash disbursements. In addition, there is no documented evidence that management has reviewed numerous disbursements, and this makes the City more susceptible to misappropriation of assets.

Recommendation

We recommend that a process be implemented to enhance the control process for cash disbursements, which would include appropriate segregation of duties, management oversight, and timely payment of invoices.

Benefit

The City will enhance the control structure and reduce the risk of misappropriation of assets.

Management Response

The City currently has proper controls in place for approving vouchers. However during 2008 two key positions within the finance department became vacant. These positions were required signatures on our voucher documents. Although these documents were reviewed by our internal auditor and his assistant their signature is absent from the form. Both of these key positions have been filled and therefore management does not expect this to be an issue in the future. Also other controls have been put in place in case of loss of personnel to ensure that someone from management is overseeing this process.

08-4 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 late 2008 the Pension Administrator position was moved to the Department of Finance. The administrator will be properly trained on completing the AG-385 and the City's internal auditor along with the Accounting Manager will review the report before it is submitted to the state.

08-5 PENSION COMPLIANCE

Criteria

The City has made significant changes to the pension plans over the past several years. It is imperative that these changes are made in accordance with state code for third class cities and the City Charter.

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes.

Effect

The City has granted benefits that are out of compliance with state code and the City Charter. In addition, the City failed to remit minimum municipal obligations to the pension funds during 2007.

Recommendation

State code and the City Charter should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Benefit

The City will be in compliance with governing documents related to pension.

Management Response

The City will hire a labor/union lawyer to negotiate all future union contracts. This will ensure that the City is in compliance with all applicable state and local codes.

08-6 UNCLAIMED PROPERTY

Criteria

Pennsylvania Statute 72 P.S. 1301 requires an entity to annually file an unclaimed property report to be filed by April 15th.

Condition/Cause

Though the City timely filed the report for 2007 and 2008, there were outstanding items noted on the general ledger that should have been turned over to the state in accordance with the statute and were not.

Effect

The City was out of compliance with a state statute.

Recommendation

We recommend that the City evaluate all tax overpayments and outstanding checks to determine if there is unclaimed property to be remitted to the State.

Benefit

The City would be in compliance with State statute.

Management Response

In 2008 the Tax Division Manager reported tax overpayments and is currently working with the IT Department to create program reports that will track the remaining tax overpayments to determine if there is unclaimed property to be reported. The Accounting Manager is currently working on reconciling old outstanding checks to determine what needs to be reported to the State.

08-7 SEGREGATION OF DUTIES - BANK RECONCILIATIONS

Criteria

Segregation of duties serves as a check and balance on employees' integrity and to maintain the best control system possible.

Condition/Cause

One individual is responsible for reconciling the two primary general fund checking accounts in addition to overseeing all general ledger functions.

Effect

Inadequate system of checks and balances poses a risk to the City's ability to accurately report its financial information and increases the City's susceptibility to misappropriation of assets.

Recommendation

We recommend that different individuals should perform the separate duties processing entries to the general ledger and performing bank reconciliation functions. At a minimum, we recommend having a knowledgeable individual review the bank reconciliations and the general ledger.

Benefit

An effective internal control system contains several checks and balances to reduce the risk of misappropriation of assets.

Management Response

The Accounting Division has experienced several staffing changes in the past few years. Due to these changes the division manager took over the duty of reconciling the two main checking accounts. The City Auditor will be responsible for overseeing these two accounts.

08-8 DCED REPORTING REQUIREMENTS

Criteria

The Department of Community and Economic Development (DCED) establishes reporting requirements for municipalities. The City did not timely file all of the required reports.

Condition/Cause

We noted several overdue reports due to DCED in March, 2009, including 2007 Tax Information due on 1/16/07 and 2009 Tax Information due on 1/16/09.

Effect

The City was out of compliance with state requirements.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

Benefit

The City would be in compliance with state statute.

Management Response

The City's internal auditor will work the City's administration ensure that all mandatory reporting requirements are filed on time

08-9 PENSION IRS WITHHOLDINGS

Criteria

Pension payments are required by statute to have taxes withheld and timely turned over to the federal government.

Condition/Cause

IRS withholdings for the police pension fund were not remitted timely for the months of February and April, 2008.

Effect

The City was out of compliance with federal statutes.

Recommendation

We recommend that the City monitor with filing requirements and comply with filing deadlines.

Benefit

The City would be in compliance with federal statutes.

Management Response

The former Pension Administrator left the position without properly remitting the February and April 2008 withholdings. A new Pension Administrator was hired in late 2008 and has filed the all IRS withholdings. The City has put controls in place to make sure that this does not occur in the future.

08-10 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 2007, 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 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.

Management Response

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.

08-11 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. The software has been utilized during this period, but there continues to be ongoing issues with understanding and properly using the software.

Effect

Billing adjustments need to continue to be made. The subsidiary ledger and bills generated should all agree. Data must be accurate to allow for proper financial reporting.

Recommendation

We recommend that policies and procedures be implemented and that all staff using the software receive appropriate training.

Benefit

It is important for City management to have a clearer understanding of the billing process and more accurate financial reporting.

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. Water Authority management reviews all billing reports to verify that the data is correctly posted before bills are generated. The Water Authority is currently looking into purchasing a new billing system for Water bills.

Federal Award Findings and Questioned Costs

08-2 Grant Receipt Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contracts BO7MC420013 and BO8MC420013.

See management's response to 08-2.

08-3 Cash Disbursements - Segregation of Duties Finding is also a Federal Award Finding which related to CDBG 14.218 program Contracts BO7MC420013 and BO8MC420013 and COPS Technology Program 16.710 Contract 2008-CK-WX-0171.

See management's response to 08-3

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