

CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2010

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HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

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, 2010, 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 did not audit the financial statements of the Reading Area Water Authority and the Reading Redevelopment Authority. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they related to the amounts included for the Reading Area Water Authority and the Reading Redevelopment Authority, are based solely upon the reports of the other auditors.

Except as discussed in the following paragraph, 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.

As of December 31, 2010, the City of Reading was unable to provide records that reflect accounts receivable balances due by customer for the water and sewer operations.

In our opinion, except for the effect of such adjustments on the 2010 financial statements, if any, as might have been determined necessary had we been able to examine records reflecting accounts receivable balances due by customer for the water and sewer operations, based on our audit and the reports of the other auditors, 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, 2010, 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.

As more fully discussed in Note 2, the City is considered a distressed community under the provisions of the "Municipalities Financial Recovery Act" (Act 47) of the Commonwealth of Pennsylvania. Under the provisions of Act 47, the City adopted a financial recovery plan (Plan), which among other things, permits the City to increase certain tax rates and fees, levy new taxes, and requires reduction of certain spending levels. The Plan is intended to enable the City to maintain services at the current level. The implementation of the Plan is subject to periodic review by the Pennsylvania Department of Community and Economic Development.

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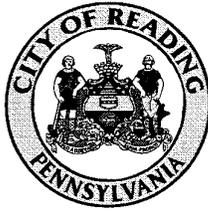
In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2011, on our consideration of the City of Reading's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and Schedules of Funding Progress and Employer Contributions - Retirement Plans and Schedule of Funding Progress and Employer Contributions - Post Employment Benefit Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 individual fund and combining nonmajor fund financial statements on pages 64 through 75 are presented for purposes of 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 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. The individual fund and combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Herbein+Company, Inc.

Reading, Pennsylvania
September 12, 2011



CITY OF READING, PENNSYLVANIA

815 WASHINGTON STREET
READING, PA 19601-3690

*The City of Reading, Pennsylvania
Management's Discussion and Analysis
For the Year Ended December 31, 2010*

The following discussion and analysis of the City of Reading's financial outcome provides an overview of the fiscal year ending December 31, 2010. 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 2010 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. (*In 2010, Management has added two critical documents to the Management Discussion and Analysis: the City of Reading Act 47 Recovery Plan Executive Summary; and the Mayor's 2011 Budget Message to City Council.)

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 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. Separately issued statements are available for both the component units.

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 the Agency Fund. 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.

City of Reading Act 47 Recovery Plan Executive Summary

The following is an excerpt from the Plan, adopted by City Council in June 2010, "The City of Reading is in a severe financial crisis and it must take immediate action to preserve its fiscal health while continuing to provide basic services to residents, businesses and visitors. Failure to act now will soon lead to catastrophic results. The depth and immediacy of the crisis cannot be overstated." Due to the seriousness of the City's financial condition, we included the full version of the Executive Summary later in the Management Discussion and Analysis section.

Mayor's 2011 Budget Message to City Council

The following is an excerpt from the Mayor's 2011 Budget Message to City Council, presented in October 2010, "... the City of Reading ... is facing significant financial challenges which force us to make difficult choices to overcome long-term structural deficits ... Next year's (2011) preliminary budget includes increases in property taxes and earned income taxes, with concurrent expenditure reductions." The full version of the Mayor's 2011 Budget Message is included in the Management Discussion and Analysis section, immediately following the Act 47 Executive Summary.

Financial Highlights for FY 2010:

2010 proved to be yet another year of structural deficits. In December 2010, the City issued \$17,280,000 in unfunded debt. Most of these debt proceeds were used to pay off prior obligations for Sewer and Pensions. The remainder was used to cover the structural deficit for 2010. Fortunately, City Council adopted the Act 47 Plan in June 2010 and resulting financial initiatives were included in the 2011 Budget approved by City Council in December 2010. For the year ended December 31, 2010, expenditures exceeded revenues by \$10,465,719 in the General Fund. Fortunately, using Other Financing Sources totaling \$32,130,950, the City ended FY 2010 with a fund balance of \$11,155,472 in its General Fund.

Statement of Net Assets:

The City continues to face challenges raising revenues to match increasing expenses for essential City services provided. Additionally, the City continues to recognize the rising Other Post Employment Benefits expenses in addition to its essential services expenses.

Statement of Net Assets:

The following table is a comparison of the 2010 and 2009 Condensed Statements of Net Assets:

	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Governmental	Governmental	Business Type	Business Type	Total Primary	Total Primary	Total Primary	Total Primary	Component	Component
	Activities	Activities	Activities	Activities	Government	Government	Government	Government	Unit	Unit
ASSETS										
Current	33,835,923	26,788,025	32,443,642	29,238,722	66,279,565	56,026,747	6,392,544	6,392,544	5,787,008	5,787,008
Restricted	-	-	30,648,231	36,793,630	30,648,231	36,793,630	5,180,430	5,180,430	4,941,168	4,941,168
Capital and Other Assets	118,668,274	112,353,021	108,394,005	99,341,949	227,062,279	211,694,970	49,249,629	49,249,629	43,413,363	43,413,363
Total Assets	152,504,197	139,141,046	171,485,878	165,374,301	323,990,075	304,515,347	60,822,603	60,822,603	54,141,539	54,141,539
Current Liabilities	21,192,151	17,554,299	7,551,276	10,202,245	28,743,427	27,756,544	3,564,193	3,564,193	6,213,326	6,213,326
Long Term Liabilities	155,151,476	146,583,896	87,321,854	85,227,142	252,473,330	231,811,038	35,965,747	35,965,747	34,134,150	34,134,150
Total Liabilities	186,343,627	164,138,195	94,873,130	95,429,387	281,216,757	259,567,582	39,529,940	39,529,940	40,347,476	40,347,476
Net Assets										
Invested in Capital Assets,										
Net of Related Debt	-	-	42,846,166	24,651,216	42,846,166	24,651,216	9,422,473	9,422,473	2,641,909	2,641,909
Restricted	-	-	11,026,148	2,817,530	11,026,148	2,817,530	-	-	-	-
Unrestricted	(33,839,430)	(24,997,149)	22,740,434	42,476,168	(11,098,996)	17,479,019	11,870,190	11,870,190	11,152,154	11,152,154
Total Net Assets	(33,839,430)	(24,997,149)	76,612,748	69,944,914	42,773,318	44,947,765	21,292,663	21,292,663	13,794,063	13,794,063

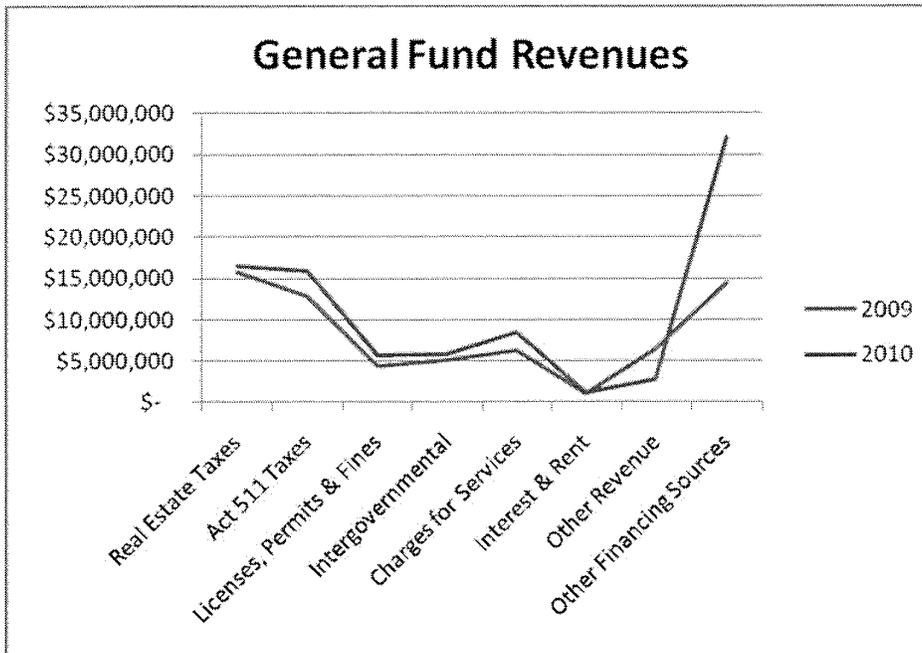
The following table is a comparison of the 2010 and 2009 Condensed Statements of Revenues and Expenses:

	2010 Governmental Activities	2009 Governmental Activities	2010 Business Type Activities	2009 Business Type Activities	2010 Total Primary Government	2009 Total Primary Government	2010 Component Unit	2009 Component Unit
REVENUES								
Program Revenues:								
Charges for Services	14,789,357	14,184,069	55,361,690	50,335,341	70,151,047	64,519,410	8,300,958	8,596,679
Operating Grants and Contributions	27,803,773	13,329,088	338,634	424,252	28,142,607	13,753,340	5,914,774	
Capital Grants and Contributions	-	-	-	-	-	-	-	-
TOTAL PROGRAM REVENUES	42,593,130	27,513,157	55,700,324	50,759,593	98,293,654	78,272,750	14,215,732	8,596,679
General Revenues:								
Property Taxes Levied for General Purposes	16,543,498	15,829,693	-	-	16,543,498	15,829,693	-	-
Earned Income, Franchise and Other Taxes	15,975,604	12,816,533	-	-	15,975,604	12,816,533	-	-
Investment Earnings	1,304,448	1,132,401	264,435	677,763	1,568,883	1,810,164	(46,668)	(46,668)
Loss on Term Swap	(762,064)	(5,591,125)	(106,520)	(14,643)	(868,584)	(5,591,125)		
Miscellaneous Income	-	(120,000)	(27,982)	(6,855,098)	(27,982)	(134,643)		144,116
Transfers	7,520,000	6,855,098	(7,520,000)	(6,855,098)	-	-	-	-
TOTAL GENERAL REVENUES	40,581,486	30,922,600	(7,390,067)	(6,191,878)	33,191,419	24,730,622	-	97,448
Indirect Cost Allocation:								
Indirect cost	2,012,554	1,866,496	1,856,481	(1,866,496)	3,869,035	-	-	-
TOTAL INDIRECT REVENUES	2,012,554	1,866,496	1,856,481	(1,866,496)	3,869,035	-	-	-
TOTAL REVENUES	85,187,170	60,302,253	50,166,938	42,701,119	135,354,108	103,003,372	14,215,732	8,694,127
EXPENSES								
Functions and Programs								
Primary Government								
Governmental Activities:								
General Government	6,595,610	8,287,115	-	-	6,595,610	8,287,115	-	-
Public Safety								
Police	27,583,279	29,234,806	-	-	27,583,279	29,234,806	-	-
Fire	12,968,379	13,687,332	-	-	12,968,379	13,687,332	-	-
EMS	3,486,858	3,557,950	-	-	3,486,858	3,557,950	-	-
Public Works - General	5,729,894	6,638,812	-	-	5,729,894	6,638,812	-	-
Public Works - Highways & Streets	2,335,271	2,979,750	-	-	2,335,271	2,979,750	-	-
Culture and Recreation	294,379	1,507,713	-	-	294,379	1,507,713	-	-
Community Development	24,658,306	10,232,786	-	-	24,658,306	10,232,786	-	-
Other	1,634,375	1,180,018	-	-	1,634,375	1,180,018	-	-
Debt Service	8,239,110	6,773,158	-	-	8,239,110	6,773,158	-	-
TOTAL GOVERNMENTAL ACTIVITIES	93,525,461	84,079,440	-	-	93,525,461	84,079,440	-	-
Business Type Activities								
Water	-	-	16,995,527	15,143,848	-	-	16,995,527	15,143,848
Sewer	-	-	17,544,681	16,466,421	-	-	17,544,681	16,466,421
Solid Waste	-	-	5,019,458	4,935,596	-	-	5,019,458	4,935,596
TOTAL BUSINESS TYPE ACTIVITIES	-	-	39,559,666	36,545,865	-	-	39,559,666	36,545,865
Total Expenses - Primary Government	93,525,461	84,079,440	39,559,666	36,545,865	133,085,127	120,625,305	6,667,723	7,413,480
Component Unit:								
Reading Parking Authority	-	-	-	-	-	-	492,125	394,251
Reading Redevelopment Authority	-	-	-	-	-	-	7,561,270	886,396
CHANGE IN NET ASSETS	(8,338,291)	(23,777,187)	6,894,310	6,155,254	(1,443,981)	(17,621,933)	13,731,393	12,907,667
NET ASSETS-BEGINNING	(33,839,430)	(24,997,149)	76,612,748	69,944,914	44,773,318	44,947,765	21,292,663	13,794,063
NET ASSETS-ENDING	(42,177,721)	(48,994,338)	83,507,058	76,099,168	43,329,337	27,325,832	35,024,056	26,701,730

General Fund Financial Highlights:

Revenues:

	2009	2010	Change
Real Estate Taxes	\$ 15,770,385	\$ 16,510,678	4.7%
Act 511 Taxes	\$ 12,773,191	\$ 15,934,823	24.8%
Licenses, Permits & Fines	\$ 4,320,134	\$ 5,675,078	31.4%
Intergovernmental	\$ 5,169,791	\$ 5,759,713	11.4%
Charges for Services	\$ 6,324,394	\$ 8,460,473	33.8%
Interest & Rent	\$ 997,261	\$ 1,188,091	19.1%
Other Revenue	\$ 6,395,567	\$ 2,830,524	-55.7%
Other Financing Sources	\$ 14,407,102	\$ 32,130,950	123.0%
Total	\$ 66,157,825	\$ 88,490,330	33.8%



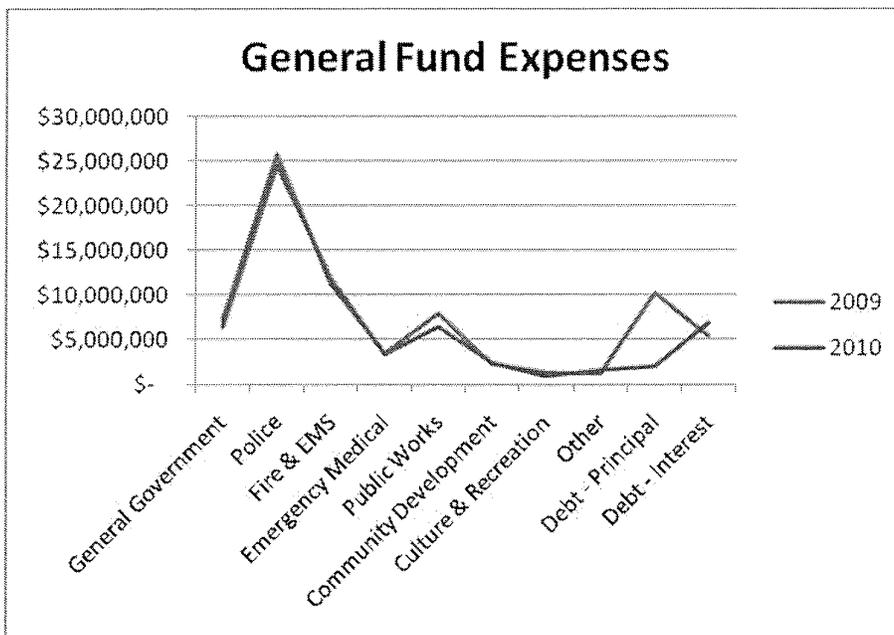
- Real Estate Taxes - The largest single funding source of the City of Reading's General Fund budget comes from Real Estate Taxes (\$16,926,240). The City of Reading's 2010 millage rate was 11.945 mills, up from 11.445 mills. From 2009, Real Estate Tax revenue increased by 4.7% due to the increase in the tax rate.
- Act 511 Taxes (Per Capita, Real Estate Transfer, Earned Income, Occupation Privilege, and Business Privilege Tax) closely follow Real Estate Taxes as the largest revenue source. The 2010 Earned Income Tax (EIT) rate was 1.7% (combined with the Reading School District rate of 1.5%, or a total of 3.2% on all wages, salaries, fees and self-employment net income received by City residents). EIT revenue (\$10,247,222) was the largest contributor of Act 511 taxes.

From 2009, EIT revenue increased by 24.8% due to the increase in the tax rate from 1.2% to 1.7%.

- Licenses, Permits and Fines – These are fees set by local ordinances and ended 2010 at \$5,675,078, an increase of 31.4%. The increase was due to multiple years’ collections of housing permits. This billing and collection is now current.
- Intergovernmental –These revenues increased by 11.4% (to \$5,759,713) and are primarily comprised of State Aid for the City’s Pension Plans as well as negotiated or donated contributions from other government entities (grants and coordinated services).
- Charges for Services – These are set by local ordinances and are based on the cost of the program or service on a transactional basis. These revenues increased by 33.8% (to \$8,460,473).
- Interest and Rent – These are based on contractual obligations from outside parties. These revenues increased by 19.1% (to \$1,188,091).
- Other Revenue – Generated from sales of property or equipment as well as direct or indirect cost reimbursement. These revenues fell by 55.7% (to \$2,830,524).
- Other Financing Sources – These revenues consist of bond proceeds and discounts, swap termination income or fees, and operating transfers in and out. These revenues grew significantly (by 123.0%) in 2010 due to bond proceeds of \$17,280,000 in unfunded debt as well as \$16,745,724 of operating transfers in to the General Fund.

Expenditures:

	2009	2010	Change
General Government	\$ 7,335,633	\$ 6,497,976	-11.4%
Police	\$ 25,758,337	\$ 24,587,176	-4.5%
Fire & EMS	\$ 11,257,285	\$ 11,841,007	5.2%
Emergency Medical	\$ 3,499,535	\$ 3,403,404	-2.7%
Public Works	\$ 7,932,796	\$ 6,458,852	-18.6%
Community Development	\$ 2,294,424	\$ 2,482,390	8.2%
Culture & Recreation	\$ 1,347,338	\$ 1,003,885	-25.5%
Other	\$ 1,180,018	\$ 1,634,375	38.5%
Debt – Principal	\$ 10,249,100	\$ 2,091,776	-79.6%
Debt – Interest	\$ 5,348,514	\$ 6,824,258	27.6%
Total	\$ 76,202,980	\$ 66,825,099	-12.3%



- General Government - The 2010 budget had 73 budgeted positions for General Government. These positions included elected and appointed officials as well as employees. These expenses decreased by 11.4% (to \$6,497,976), mostly due to staff reductions in several areas: tax collection, Mayor's office, call center as well as a number of part time employees.
- Police - The 2010 budget had 225 budgeted positions, including civilians and the Property Maintenance and Inspection Unit. In late 2009, the City eliminated 30 positions which required 12 actual layoffs. Departmental expenses decreased by 4.5% (to \$24,587,176), mostly due to personnel reductions. The police collective bargaining agreement expires on December 31, 2011. As a result, significant cost reductions will occur in 2012.
- Fire - In 2008, the City budgeted to add 12 firefighters to its suppression activities but the count was reduced back to 104 in 2010. Departmental expenses increased by 5.2% (to \$11,841,007), mostly due to overtime. The fire collective bargaining agreement expired on December 31, 2010. As a result, significant cost reductions did not occur until 2011.
- Emergency Medical - Departmental expenses decreased by 2.7% (to \$3,403,404), mostly due to a reduction in overtime.
- Public Works - Public Works total budgeted headcount has been reduced by 25, or 17.4%, between 2006 and 2010. 15 of the 119 departmental employees are funded outside of the General Fund, partly an effort to reduce the burden on tax funded services. The AFSCME collective bargaining agreements (2) expire on December 31, 2011. As a result, significant cost reductions will occur in 2012. The largest portion of AFSCME employees are in Public Works. Departmental expenses decreased by 18.6% (to \$6,458,852), mostly due to employee layoffs, particularly in the Enterprise Funds, especially recycling.
- Community Development - In 2010, Community Development had six of its 13 positions supported by the General Fund. Departmental expenses increased by 8.2% (to \$2,482,390), mostly due to the layoff of the Zoning Administrator.

- Culture & Recreation – These expenses decreased by 25.5% (to \$1,003,885).
- Other – These expenses increased by 38.5% (to \$1,634,375).
- Debt – Principal – These expenses decreased by 79.6% (to \$2,091,776). See City Debt (below).
- Debt – Interest – These expenses increased by 27.6% (to \$6,824,258). See City Debt (below).

City Debt:

In 2008 and 2009, the City significantly restructured its debt through several refunding and swap terminations. The City refunded bonds in 2002, 2005 and 2006 because it could reissue that debt at lower interest rates and save money in the near term. The goal of these transactions was to reduce the scale of very large, unaffordable increases in debt service in 2009 and 2010. While the City was successful in doing so, it also had to increase its debt service payments from 2017 through 2033. In 2010, Debt Principal and Interest decreased by 42.8% (to \$8,916,034).

Economic Factors:

As reported by Moody's Analytics May 2011:

Recent Performance: Reading's recovery has picked up this year as hiring has accelerated and broadened. Job gains in beleaguered manufacturing and construction are encouraging, but total employment remains well below its prerecession peak. The labor force participation rate is rising, and hiring has been sufficient to bring the unemployment rate down a full percentage point since the beginning of the year to 7.8% for April. Following more than a year of declines, public employment has held up well over the past several months.

Housing Outlook: REA's housing market has yet to experience a self-sustained recovery and will remain a drag on the economy in the second half. Barring sporadic increases, homebuilding remains subdued, with both single-family permits and starts near all-time lows. Permits and starts are expected to recover gradually, but a sustained rally in home prices will be necessary to encourage homebuilders to significantly increase construction. Following limited gains in early 2010, the Case-Shiller Home Price Index has taken a turn for the worse and is expected to keep falling into early 2012 as more foreclosures enter the market.

Fundamentals will be more favorable for the housing market once the economy is off and running. The drop in homebuilding during the recession helped balance the market and pent-up demand has formed because of REA's steadily growing population. Prospects for housing to emerge as a major driver for the economy remain dim.

Income/Poverty: REA incomes will struggle to catch up with the national average over the long run. The steady loss of high-paying manufacturing jobs over the past two decades has eroded relative incomes in REA. Per capita income was 4% above the U.S. average in the early 1990s, but this advantage has eroded. Per capita incomes in the metro area are now 8% below that for the nation.

In particular, the workforce within the City of Reading suffers from a lack of skills and will continue to have declines in its relative per capita incomes. According to the American Community Survey, 32% of residents are below the poverty level, compared with 7% in the rest of Berks County and 14% for the U.S. Data for educational attainment are even worse. Fewer than 9% of city residents older than 25 have earned at least a bachelor's degree, compared with 24% of those outside the city. The Rebuilding Reading Poverty Commission's latest report recommends creating industry partnerships for targeted workforce development that will help REA residents become qualified for higher-paying jobs that require specialized training.

Similar to Pennsylvania and U.S. recoveries, the Reading recovery will gain traction over the second half of 2011. The recent manufacturing rally will not last over the long term, however, and other industries are not well-positioned to take its place as an economic driver. All told, REA will underperform the nation in terms of job growth over the forecast horizon.

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 Carl E. Geffken, Managing Director at 610-655-6222, or carl.geffken@readingpa.org, or 815 Washington Street, Reading PA 19601. If you have any questions concerning the Reading Area Water Authority financial information, please contact Dean Miller, Executive Director, Reading Area Water Authority at 610-655-6252, or 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.

City of Reading Act 47 Recovery Plan Executive Summary
 Adopted June 2010

Executive Summary

The City of Reading is in a severe financial crisis and it must take immediate action to preserve its fiscal health while continuing to provide basic services to residents, businesses and visitors. Failure to act now will soon lead to catastrophic results. The depth and immediacy of the crisis cannot be overstated.

Reading's most recent audit, covering fiscal year 2008 and dated July 20, 2009, notes that "... 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."

After repeated failures to correct its structural deficit, and a continued downward financial spiral, the Mayor of Reading asked the Commonwealth of Pennsylvania's Secretary of the Department of Community and Economic Development to designate the City as financially distressed under Act 47. In November 2009 the Secretary approved the distress determination, saying the City's "pattern of operating deficits is unsustainable and if left unabated will force the city to significantly reduce or eliminate fundamental services that may adversely affect the health, safety, welfare, and quality of life of the citizens." As a result, in December 2009 the Secretary appointed a Coordinator led by Public Financial Management, Inc. to develop a financial Recovery Plan to bring the city back to fiscal health.

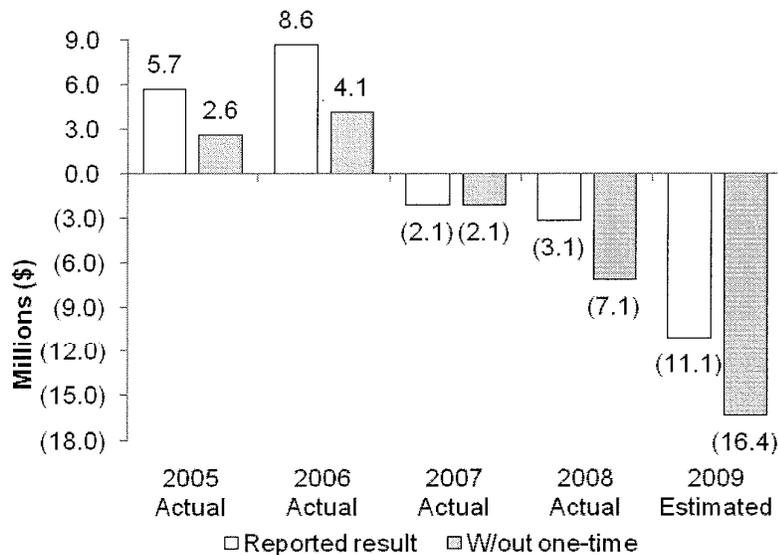
The Coordinator's investigation confirmed the City's critical financial situation. Information provided by the City shows an annual deficit in 2007 that grows each year thereafter. The 2009 annual result is a shortfall of \$11.1 million (or a net negative gap of \$9.0 million after the application of a reported fund balance entering 2009).

General Fund Results, 2005 - 2009

	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Estimated
Total revenues	61,406,747	71,954,252	61,728,209	77,192,065	73,237,619
Total expenditures	55,721,065	63,317,112	63,857,745	80,324,606	84,324,039
Surplus / (Deficit)	5,685,682	8,637,140	(2,129,536)	(3,132,541)	(11,086,420)

Based on the Coordinator's analysis to date (and that of the Commonwealth previously), actual results are likely worse after one time measures and accounting anomalies are taken into account. Over the past few years the City has relied on short-term debt solutions, asset sales and one-time payments from the Reading Parking Authority to cover what would otherwise have been annual operating deficits. These measures have only provided temporary relief and have not covered the full gap in some years, creating greater obligations in the future. As a result, the City had to use its fund balance to close its operating deficit in 2007 and 2008 and faces recurring shortfalls every year after 2010.

Reported Results with and without One-Time Fixes



Two other factors have obscured the City’s dire financial situation to date.

First, Reading does not have a cash flow report to monitor whether it has sufficient revenues to cover its expenses on an ongoing basis. The City was not able to provide prior year cash data. Instead, the historical figures provided by the City appear to follow an accounting method that credits the City with revenue in one year when it was actually received early in the next year and not available to pay obligations. While this accounting method might be useful in the proper context, it obscures the City’s difficulty in meeting cash obligations as they come due.

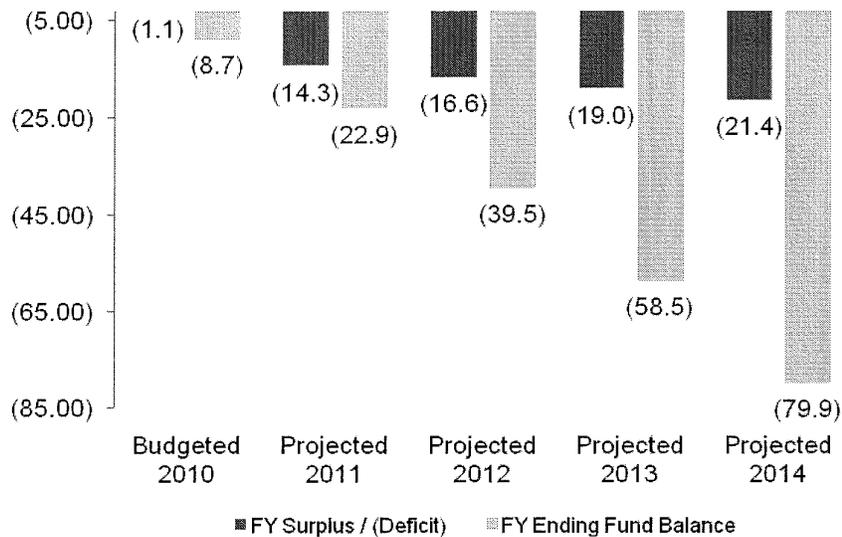
Next, the City has relied on cash transfers from its Sewer Fund throughout the year, and might not be able to pay bills in many months without interfund loans. Last year the City borrowed approximately \$11 million from the Sewer Fund to cover the operating deficit shown above. It is not clear when that transfer will be fully and permanently repaid absent corrective action recommended in this Recovery Plan.

These factors obscure the accurate amount of the City’s ongoing operating deficits and cash flow shortfalls, and they emphasize the ultimate conclusion that Reading is in a severe financial crisis that is getting worse. Without the corrective action recommended in this Plan, Reading’s financial problems will not be resolved, and it will soon be unable to pay its employees and vendors. The City’s bond insurer has already stated its unwillingness to extend further credit to the City without the adoption of a comprehensive financial recovery plan.

As previous studies have found, Reading has high tax rates in most categories, and its residents are among the least wealthy in the region. The City has experienced little structural revenue growth absent tax and service charge increases as property values and resident earnings – Reading’s two largest revenue sources – have been stagnant or declining.

The City has a nominally balanced budget in 2010, but it does not address the deficit with which it began the year. The City has no reserve for contingencies (the fund balance was exhausted in trying to close last year’s deficit). Even assuming the City breaks its string of annual operating deficits in 2010, the projections in future years are increasingly bleak.

City of Reading Baseline Projections (\$ Millions)



Looking forward, expenditures spike in 2011 as debt service and pension payments grow by a combined \$8.6 million. If the City continues this trend, annual deficits will mount and create a cumulative fund deficit that exceeds 90 percent of the City's operating budget by 2014. The annual deficit will be equivalent to nearly a quarter of the City's operating budget by 2014.

The repeated one-time actions that have patched annual shortfalls but increased the overall size of the structural deficit have made Reading's finances unstable, but that is just one of the important issues that must be remedied.

Public confidence in Reading's ability to conduct its affairs has been shaken by press accounts of poor management at City Hall, tension between the Administration and City Council, and difficult labor-management relations. Reading must act now to restore public confidence; bring short- and long-term revenues into balance; improve the efficiency and effectiveness of its public services; and establish sustainable operating budgets. The Plan provides a difficult but necessary plan of immediate and long-term reform to do so.

Reading's Recovery Plan

After three public meetings sponsored by the Coordinator, it is clear that City residents, Councilors, the Mayor and many stakeholders share a similar sentiment: they love their city and want it to thrive. Therefore, this Act 47 Recovery Plan is not only focused on the city's survival, but also on its full recovery, growth and sustainability.

Recovery and growth is possible only if the City first solves the crucial question of how to stabilize its finances. Many have made positive, constructive suggestions for ways to foster economic development and growth in Reading. However, unless the imminent danger of financial collapse is averted, none of these ideas can be implemented. To achieve that end and provide a base from which the City can grow, this Recovery Plan includes the following:

- Change the way services are provided. In tough times, the City cannot keep asking taxpayers to bear an ever-growing burden without also aggressively demonstrating commitment to more efficient, more effective, and less expensive government. Related initiatives include:
 - Mandatory reductions in spending on supplies, materials and contracted services
 - Restructuring the fire department to provide the same level of fire suppression coverage and improved EMS coverage at a lower cost
 - Combining the Parks and Property Maintenance units with the Department of Public Works
- Bring the City into compliance with legal, financial and fiduciary standards:

- Address the underpayment of the City’s 2007 minimum municipal obligation (MMO) to the Police, Fire and Non-Uniformed employee pension plans
- Repay the City’s multi-million dollar obligation to the Sewer Fund
- Stop providing retirement benefits that exceed those allowed by the Third Class City Code
- Contain the fast-growing employee compensation as applied to non-represented managers and union workers alike:
 - A three year base wage and step freeze
 - Restructure health benefits, including increased employee contributions to monthly premium costs
 - Overtime and premium pay reductions

These recommendations, though difficult, are necessary remedies to bring the City’s finances into balance. Without these remedies, recovery is impossible and the City will cease to operate.

Management and Accountability

The Plan establishes a formal performance measurement process applied across all departments that makes it clear what information will be tracked and how. This empowers Council, residents and the Commonwealth by giving them the ability to know if the City is on track for recovery and for holding officials accountable for that progress.

Initiatives include:

- Establishment of City support teams, led by nationally-experienced professionals from the Act 47 Coordinator and including local and regional experts to begin work on key areas including financial management and outreach to the Latino community;
- Regular progress and implementation meetings between the Act 47 Coordinator, representatives of City Council, the Administration and other stakeholders to ensure that this Recovery Plan is implemented and monitor the impact and challenges in doing so;
- Best practices in municipal budgeting, such as enhanced interim reporting, cash flow monitoring and a more fully-developed capital budget and plan; and
- Establishment of regular employee performance reviews.

Improve Housing

Housing is the core of the City’s tax base and the daily lives of Reading residents. The City needs to correct the mistakes of the past, do better with current code enforcement responsibilities and have a strategy that guides future work. Initiatives include:

- Clear the City’s rental permit inspection and zoning review backlog;
- Expand code enforcement coverage and capacity through schedule changes and improved use of technology;
- Designate a leader within City government in charge of developing, coordinating and implementing a housing strategy; and
- Review the use of federal funding to ensure those resources are supporting a defined strategy.

Rethink City Services

Reading must focus its limited resources on its core municipal services: public safety and public works. In recognition that other areas are too important to just eliminate, the Recovery Plan provides alternatives for providing those services to Reading residents through regional cooperation. It targets areas where the City can stop duplicating the services that others provide and reinvest those resources elsewhere. Initiatives include:

- Transfer tax collection responsibilities to the County and other entities;
- Work with Berks County jointly on information technology needs;
- Build upon existing cooperative efforts in public safety with the Boroughs of Kenhorst and West Reading; and
- Develop regional alternatives to the current model of locally provided – and underfunded – recreation and library services.

Modifications in this Plan

As a result of public comment on the draft Plan, this Act 47 Recovery Plan includes a variety of changes to reflect local preferences, ideas, suggestions and corrections. Changes to the revenue initiatives are discussed in the next subsection. Changes to the expenditure and policy initiatives include:

- Support for increased hiring of Reading residents;
- Restoration of the funding cut for the Reading Public Library;
- Elimination of the requirement to replace an aerial fire apparatus with a quint;
- Pursuing the cooperative purchasing of employee health insurance;
- A more robust process for examining and potentially implementing new policies and structural changes for service delivery (transfer of functions to authorities, shared services, etc.).

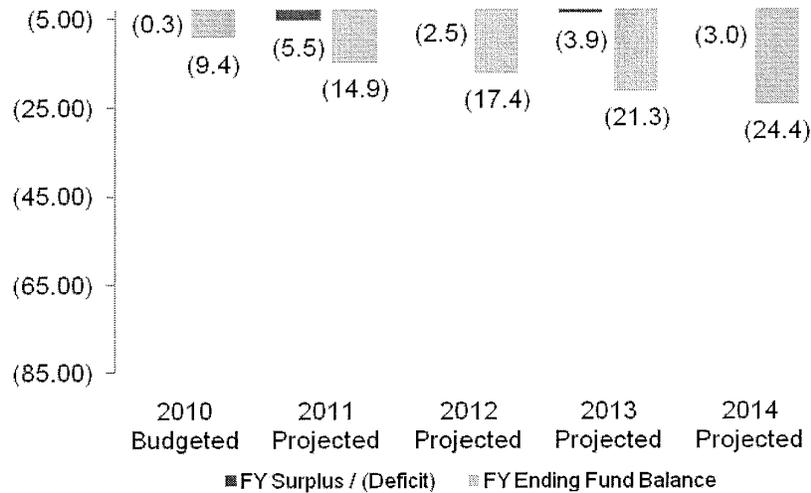
Remaining Gap

Overall, the Act 47 team has identified more than 150 non-tax initiatives, with quantified measures ranging from \$5,000 to over \$3.0 million per year. In the aggregate, these expenditure-focused measures will eliminate much of the City's recurring deficit. The Recovery Plan also requires the implementation of a variety of revenue-raising initiatives that are innovative and long overdue. Initiatives include:

- Improve collection of current and delinquent taxes;
- Recover costs from private entities that receive enhanced public safety coverage;
- Regularly raise service charges to reflect increases in the cost of providing service; and
- Pursue market-based revenues from leasing and advertising.

These steps, combined with the expenditure initiatives of the Recovery Plan, eliminate most of the City's projected baseline deficit. However, due to the need to repay the City's \$9.0 million cash deficit and to eliminate a 2011 shortfall that will occur before all Recovery Plan elements are effective, a gap will still remain, as shown below:

Projections with Initiatives, FY2010 – FY2014



This Act 47 Recovery Plan closes the remaining gap with a package of revenue measures.

Additional Revenues

In order to reach a point from which it can balance its budget, the City needs a short-term infusion of revenue to pay its pension delinquencies and refund borrowing from the Sewer Fund, and also cover the projected 2011-13 shortfalls. Even after the substantial restructuring of City services that form the core of this Recovery Plan, there is not enough left to pay for these existing deficiencies. For example, covering the 2011 combined shortfall of \$14.9 million after the changes already in the Recovery Plan would require the elimination of the entire Fire Department (\$11.1 million plus pension costs) or more than half of the Police Department (\$23.8 million plus pension costs), which is obviously neither practical nor desirable.

Some stakeholders have suggested that the City could pay for these past mistakes by selling assets, including those related to parking, wastewater conveyance and treatment and water distribution. While this could generate a significant short-term gain in revenue, it essentially continues the mistakes of the past by relying on one-time fixes to address a recurring problem. Given the need to solve the City's structural financial imbalance and not use money from long-term investments to pay for operating deficits, as well as the current uncertain pricing environment for such transactions, the Recovery Plan does not include significant asset sales.

Instead the Recovery Plan proposes to correct most of the short-term legacy delinquencies and the 2011-13 gaps with temporary employment taxes. The tax option is necessary but not desirable, so it is strictly constrained in amount and duration. This is made more certain by the need for the annual approval by the Act 47 Coordinator and Common Pleas Court for non-resident earned income taxes.

In addition to the temporary tax provisions, increased long-term revenues are needed for the City to achieve more permanent fiscal stability. The draft Plan proposed annual property tax increases to meet this need. However, public comments on the draft highlighted strong opposition to this approach. Members of City Council in particular suggested a strong preference for additional recurring revenue from the Reading Parking Authority (RPA) and the Reading Area Water Authority (RAWA) to expand the base and share the burden of financial recovery.

Taking the public comments and additional information provided by City Council and the Administration into account, this Act 47 Recovery Plan therefore includes a revenue package featuring:

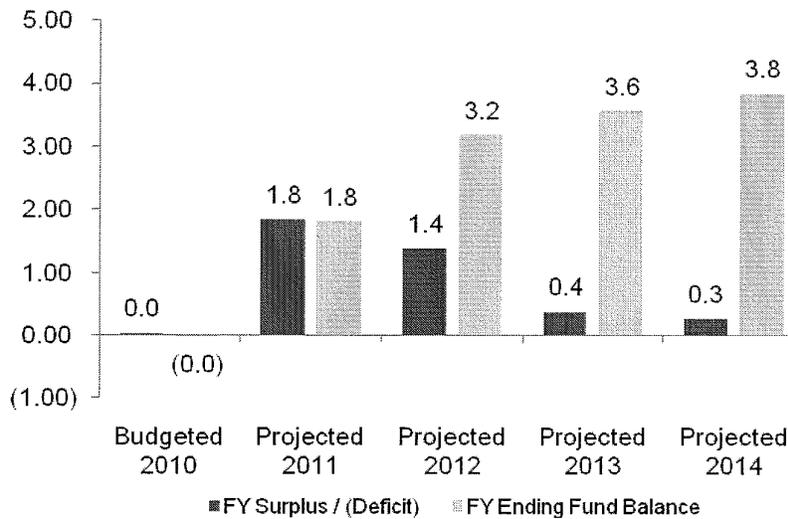
- A temporary increase in the resident earned income tax of 0.4 percent in 2011, 0.2 percent in 2012, and 0.2 percent in 2013;
- A temporary increase in the non-resident income tax of 0.3 percent in 2011, 0.1 percent in 2012, and 0.1 percent in 2013. The non-resident earned income tax is eliminated in 2014.
- A reduction in the current level of resident earned income tax from 1.700 percent to 1.675 percent in 2014.

- Increased contributions to the City from the Reading Parking Authority of \$2.5 million from 2010 through 2014;
- Increased contributions to the City from the Reading Area Water Authority of \$6.95 million from 2010 through 2014;
- A property tax increase of 10 percent in 2014.

If the City is able to exceed projected financial performance, it would have the ability to moderate the 2014 property tax increase or further reduce the resident earned income tax that year. If the City fails to secure additional revenue contributions from the authorities, the Plan includes a failsafe revenue alternative.

Combining this revenue package with the extensive cost-savings measures included in this Recovery Plan, the City is projected to achieve a surplus in each of the next four fiscal years. With careful management, these surpluses will compound and help the City reverse its current negative fund balance and establish a positive fund balance of \$3.8 million by FY2014.

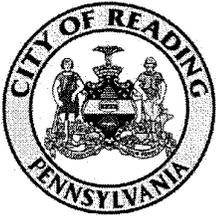
Projected Annual Surpluses and Fund Balance, FY2010 – FY2014



Conclusion

This Recovery Plan includes significant changes to how Reading provides services and how it funds those services. However, without prompt, decisive action, the City of Reading will face far more dire changes. It will soon be unable to pay its employees or creditors, and its access to credit at any reasonable price will be severely curtailed or eliminated.

The City has avoided making the adjustments that will bring true balance to its finances, instead choosing temporary fixes to a structural problem. Those short term measures have not only exacerbated the problem, they are no longer sufficient to address the ongoing deficits. This Plan represents an opportunity to make the hard decisions now so that the City cannot only survive, but also grow tomorrow. It focuses on critical issues – improved accountability, investing resources in housing and changing the way City government operates. It is a Plan focused on Reading’s recovery and its future.



Office of the Mayor
Thomas M. McMahon

MAYOR'S 2011 BUDGET MESSAGE TO CITY COUNCIL
Friday, October 1, 2010

Today, consistent with my obligations under the City of Reading's Home Rule Charter, I am submitting my administration's preliminary budget plan for 2011. As you are aware, the City of Reading, like most of our counterparts across the Commonwealth of Pennsylvania, is facing significant financial challenges which force us to make difficult choices to overcome long-term structural deficits. Therefore, in accordance with the Municipal Recovery Plan adopted by City Council on June 11, 2010, next year's preliminary budget includes increases in property taxes and earned income taxes, with concurrent expenditure reductions.

I would like to call your attention to the following:

- Our 2011 preliminary general fund budget plan calls for \$70,684,459 in expenditures and \$70,461,182 in revenue (compared to \$64,994,810 in 2010). A large portion of the \$5.7 million increase in expenditures is due to higher pension contributions (\$3.4 million), higher debt service obligations (\$2.4 million), which includes the \$1.9 million payment for the \$16.5 million unfunded debt, and higher Fringe Benefit costs (\$1.5 million). The \$7.3 million increase was offset by \$1.6 million in reductions.
- The budget assumes that agreements will be reached with both the Reading Area Water Authority and the Reading Parking Authority resulting in additional transfers to the general fund as provided in the Recovery Plan. Even so, we must rely upon the failsafe revenues called for in the Recovery Plan in the preliminary budget plan, including a 22% increase in the City's portion of the property tax. This tax increase will result in an overall property tax increase for City property owners of approximately 7.44%, or an average of \$11 per month on a property assessed at \$50,000.
- Consistent with the Municipal Recovery Plan, we will seek court approval to increase the City's portion of the earned income tax by 0.4% for City residents, and to establish a temporary 0.3% EIT for non-residents who work in our City and benefit from municipal services.
- A modest level of further personnel reductions will be required to meet our budget challenges for 2011. The 2011 Budget contemplates a reduction in the authorized number of positions in the police force by 11 next year, which reflects our current level of staffing; 10 of these positions are eliminated pursuant to the Recovery Plan, and one fewer officer will be assigned to the Reading School District.
- Administrative support, clerical and supervisory positions have also been consolidated wherever possible.
- The Tax Administration division is being eliminated and most of its functions transferred.

- Operating assumptions regarding Fire Department operations are tentative, as we are only now beginning the arbitration phase in our negotiations with the IAFF, which will have financial implications for the 2011 budget.
- Non-represented personnel will have wages frozen in 2011, and those with salaries of \$50,000 or higher will have a 2.5% wage reduction in 2011. All labor agreements which provide for wage increases in 2011 will be honored.
- Contributions by the City to employee health care expenses will be limited based on guidelines in the Recovery Plan, and will impact first-line supervisors, non-represented employees, and firefighters in 2011.
- Employee furloughs remain a potential stop-gap measure to meet the operating budget in 2011.
- The 2011 plan also provides for greater efficiency in delivering basic municipal services. Building and trades, the call center, solid waste and recycling, treasury, and the remainder of tax administration will be consolidated into a new Citizens Service Center beginning in January, 2011. We also plan to expand hours of operations, increasing convenience for our citizens.
- The budget proposal provides a slight increase in funding for the Reading Public Library in 2011 compared to this year.
- The preliminary Capital Improvement Plan for 2011 provides for initiating \$1.58 million in new capital investments in the coming year, which will result in about \$5.25 million in capital improvements planned or in progress.
- Debt service in the 2011 is budgeted to total \$11,101,192.

My team and I look forward to working with City Council in developing a final budget plan and laying the groundwork in 2011 for City's long-term financial recovery.

CITY OF READING
STATEMENT OF NET ASSETS
December 31, 2010

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
ASSETS					
Current assets					
Cash and cash equivalents	\$ 8,733,659	\$ 29,931,169	\$ 38,664,828	\$ 3,406,706	\$ 16,601
Investments	3,836,636	114,950	3,951,586	-	1,401,524
Accounts receivable, net	6,996,314	7,486,418	14,482,732	175,759	-
Taxes receivable, net	2,371,785	-	2,371,785	-	-
Internal balances	9,431,254	(9,431,254)	-	-	-
Intergovernmental receivables	2,376,275	2,602,425	4,978,700	815,512	-
Inventory	-	1,695,950	1,695,950	-	130,241
Lease receivable - current portion	-	-	-	-	300,396
Other current assets	90,000	43,984	133,984	145,805	-
Total current assets	<u>33,835,923</u>	<u>32,443,642</u>	<u>66,279,565</u>	<u>4,543,782</u>	<u>1,848,762</u>
Restricted assets					
Cash and investments	-	30,648,231	30,648,231	5,170,718	9,712
Other noncurrent assets					
Unamortized bond issue costs	3,523,925	2,047,655	5,571,580	502,499	-
Unamortized loan origination fee	-	-	-	287,221	-
Notes receivable, noncurrent	26,269,174	-	26,269,174	-	-
Net pension asset	37,979,744	-	37,979,744	-	-
Lease receivable - noncurrent portion	-	-	-	-	3,458,067
Leased land rights	-	1,020,000	1,020,000	-	-
Deferred outflow of resources	3,442,423	-	3,442,423	-	-
Capital assets					
Land	280,960	2,074,359	2,355,319	2,614,070	-
Buildings, net of accumulated depreciation	13,824,776	20,839,858	34,664,634	41,894,043	-
Machinery and equipment, net of accumulated depreciation	6,610,178	6,542,460	13,152,638	465,053	-
Improvements, net of accumulated depreciation	15,350,652	46,584,042	61,934,694	28,676	-
Infrastructure, net of accumulated depreciation	2,083,514	-	2,083,514	-	-
Construction in progress	9,302,928	29,285,631	38,588,559	-	-
Total other noncurrent assets	<u>118,668,274</u>	<u>108,394,005</u>	<u>227,062,279</u>	<u>45,791,562</u>	<u>3,458,067</u>
TOTAL ASSETS	<u>\$ 152,504,197</u>	<u>\$ 171,485,878</u>	<u>\$ 323,990,075</u>	<u>\$ 55,506,062</u>	<u>\$ 5,316,541</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	\$11,722,142	\$2,663,512	\$14,385,654	\$ 360,814	\$ 11,323
Benefits payable	126,817	-	126,817	48,481	-
Accrued interest	807,973	114,079	922,052	87,314	11,330
Deferred revenue	512,349	763,415	1,275,764	25,783	-
Other current liabilities	2,947,295	92,808	3,040,103	-	21,578
Current portion lease payable	100,000	-	100,000	-	-
Current portion notes and bonds payable	4,975,575	3,917,462	8,893,037	2,897,570	100,000
Total current liabilities	21,192,151	7,551,276	28,743,427	3,419,962	144,231
Noncurrent liabilities					
Notes and bonds payable	160,509,970	91,830,862	252,340,832	42,776,674	3,415,000
Lease payable	3,415,000	-	3,415,000	-	-
Derivative instruments	4,942,549	332,995	5,275,544	-	-
Unamortized bond premium	-	758,731	758,731	-	-
Unamortized bond discount	(539,729)	(535,339)	(1,075,068)	-	-
Deferred loss on bond issuance	(3,193,752)	(651,215)	(3,844,967)	(3,060,072)	-
Unamortized interest on capital appreciation bonds	(6,155,320)	(4,777,137)	(10,932,457)	(7,223,991)	-
Other	-	-	-	58,136	-
Other post employment benefits	5,347,232	362,957	5,710,189	-	-
Accrued compensated absences	825,526	-	825,526	-	-
Total noncurrent liabilities	165,151,476	87,321,854	252,473,330	32,550,747	3,415,000
TOTAL LIABILITIES	186,343,627	94,873,130	281,216,757	35,970,709	3,559,231
NET ASSETS					
Invested in capital assets, net of related debt	-	42,846,166	42,846,166	9,422,473	-
Restricted for:					
Debt service	-	4,044,555	4,044,555	-	-
Capital projects	-	6,981,593	6,981,593	-	-
Unrestricted	(33,839,430)	22,740,434	(11,098,996)	10,112,880	1,757,310
TOTAL NET ASSETS	(33,839,430)	76,612,748	42,773,318	19,535,353	1,757,310
TOTAL LIABILITIES AND NET ASSETS	\$ 152,504,197	\$ 171,485,878	\$ 323,990,075	\$ 55,506,062	\$ 5,316,541

CITY OF READING
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

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	\$ 6,595,610	\$ 2,012,554	\$ 991,495	\$ 12,218,657	\$ -
Public safety:					
Police	27,583,279	-	997,586	3,516,080	-
Fire	12,968,379	-	3,084,043	49,855	-
EMS	3,486,858	-	5,612,250	682,077	-
Public works - highways and streets	2,335,271	-	62,828	1,362,733	-
Public works - other	5,729,894	-	2,827,231	66,628	-
Community development	24,658,306	-	424,702	9,184,669	-
Culture and recreation	294,379	-	617,611	723,074	-
Other	1,634,375	-	171,611	-	-
Debt service - interest	8,239,110	-	-	-	-
Total governmental activities	<u>\$93,525,461</u>	<u>2,012,554</u>	<u>\$14,789,357</u>	<u>27,803,773</u>	<u>-</u>
Business-type activities:					
Water	16,995,527	689,392	20,989,551	101,594	-
Sewer	17,544,681	1,032,749	28,937,405	-	-
Trash and recycling	5,019,458	134,340	5,434,734	237,240	-
Total business-type activities	<u>39,559,666</u>	<u>1,856,481</u>	<u>55,361,690</u>	<u>338,834</u>	<u>-</u>
Total primary government	<u>\$ 133,085,127</u>	<u>\$ 3,869,035</u>	<u>\$ 70,151,047</u>	<u>\$ 28,142,607</u>	<u>\$ -</u>
Component Unit:					
Reading Parking Authority:					
Parking	\$ 6,667,723	\$ -	\$ 8,097,941	\$ -	\$ 5,914,774
Reading Redevelopment Authority:					
Redevelopment	495,125	-	203,017	-	-
General Revenues and Transfers:					
Taxes:					
Property taxes, levied for general purposes					
Earned income, franchise, and other taxes, levied for general purposes, net					
Investment earnings (loss)					
Miscellaneous income (expense)					
Change in derivative instrument					
Transfers					
Total General Revenues and Transfers					
Change in Net Assets					
Net Assets (Deficiency) - Beginning as Restated					
Net Assets (Deficiency) - Ending					

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)
\$ 8,627,096	\$ -	\$ 8,627,096	\$ -	\$ -
(23,069,613)	-	(23,069,613)	-	-
(9,834,481)	-	(9,834,481)	-	-
2,807,469	-	2,807,469	-	-
(909,710)	-	(909,710)	-	-
(2,836,035)	-	(2,836,035)	-	-
(15,048,935)	-	(15,048,935)	-	-
1,046,306	-	1,046,306	-	-
(1,462,764)	-	(1,462,764)	-	-
(8,239,110)	-	(8,239,110)	-	-
(48,919,777)	-	(48,919,777)	-	-
-	3,406,226	3,406,226	-	-
-	10,359,975	10,359,975	-	-
-	518,176	518,176	-	-
-	14,284,377	14,284,377	-	-
(48,919,777)	14,284,377	(34,635,400)	-	-
-	-	-	7,344,992	-
-	-	-	-	(292,108)
16,543,498	-	16,543,498	-	-
15,975,604	-	15,975,604	-	-
1,304,448	264,435	1,568,883	365,052	3,506
-	(27,982)	(27,982)	2,085	137,743
(762,064)	(106,520)	(868,584)	-	-
7,520,000	(7,520,000)	-	-	-
40,581,486	(7,390,067)	33,191,419	367,137	141,249
(8,338,291)	6,894,310	(1,443,981)	7,712,129	(150,859)
(25,501,139)	69,718,438	44,217,299	11,823,224	1,908,169
\$ (33,839,430)	\$ 76,612,748	\$ 42,773,318	\$ 19,535,353	\$ 1,757,310

CITY OF READING
BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2010

	General	Community Development
ASSETS		
Cash and cash equivalents	\$ (132,375)	\$ 397,691
Investments	386,420	-
Accounts receivable	2,760,993	-
Taxes receivable, net	1,682,167	-
Interfund receivable	13,655,659	428,319
Intergovernmental receivable	48,500	2,327,775
Prepaid expense	-	-
Notes receivable - noncurrent	3,978,606	25,023,924
	TOTAL ASSETS	\$ 28,177,709
	\$ 22,379,970	\$ 28,177,709
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 1,915,733	\$ 401,224
Payroll withholdings	126,817	-
Interfund payable	3,240,005	2,582,976
Deferred revenue	5,588,769	25,023,924
Other liabilities	353,174	-
	TOTAL LIABILITIES	28,008,124
	11,224,498	28,008,124
FUND BALANCES		
Reserve for prepaid expenses	-	-
Reserve for capital projects	-	-
Reserve for debt service	-	-
Unreserved/undesignated fund balances:		
General fund	11,155,472	-
Community development	-	169,585
Agency fund	-	-
Liquid fuels	-	-
	TOTAL FUND BALANCES	169,585
	11,155,472	169,585
	\$ 22,379,970	\$ 28,177,709
TOTAL LIABILITIES AND FUND BALANCES	\$ 22,379,970	\$ 28,177,709

See accompanying notes.

Capital Projects	Agency Fund	Nonmajor Funds	Total Governmental Funds
\$ 4,607,473	\$ 1,844,540	\$ 1,849,059	\$ 8,566,388
-	44,795	572	431,787
-	4,235,321	-	6,996,314
-	-	-	1,682,167
166,000	902,246	85,412	15,237,636
-	-	-	2,376,275
-	90,000	-	90,000
-	-	2,271,429	31,273,959
<u>\$ 4,773,473</u>	<u>\$ 7,116,902</u>	<u>\$ 4,206,472</u>	<u>\$ 66,654,526</u>
\$ 2,463,934	\$ 3,967,801	\$ 152,925	\$ 8,901,617
-	-	-	126,817
462,805	1,930,070	810,103	9,025,959
-	512,349	2,271,429	33,396,471
-	-	-	353,174
<u>2,926,739</u>	<u>6,410,220</u>	<u>3,234,457</u>	<u>51,804,038</u>
-	90,000	-	90,000
1,846,734	-	-	1,846,734
-	-	163,693	163,693
-	-	-	11,155,472
-	-	-	169,585
-	616,682	-	616,682
-	-	808,322	808,322
<u>1,846,734</u>	<u>706,682</u>	<u>972,015</u>	<u>14,850,488</u>
<u>\$ 4,773,473</u>	<u>\$ 7,116,902</u>	<u>\$ 4,206,472</u>	<u>\$ 66,654,526</u>

CITY OF READING

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

December 31, 2010

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 14,850,488

**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 \$95,819,557 and the accumulated depreciation is \$48,366,549. 47,453,008

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. 2,555,312

Other long-term loans (receivables) are not available to pay current period expenditures and therefore, are deferred in the funds. 31,273,959

Establish allowance for doubtful accounts - property taxes receivable (\$255,531) and other long-term asset receivables (\$5,004,785). (5,260,316)

Net pension asset established upon long-term financing of unfunded pension obligation to be amortized over future periods when benefit is received. 37,979,744

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. 1,377,051

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	\$ 539,729	
Bond Issuance Costs, Net of Amortization	3,523,925	
Bonds/Notes/Leases Payable	(169,000,545)	
Accrued Interest on Bonds	(807,973)	
Unamortized Interest	6,155,320	
Other Post Employment Benefits	(5,347,232)	
Compensated Absences	(825,526)	
Deferred Loss on Bond Issuance	3,193,752	(162,568,550)

Governments are required to report investment derivative instruments at fair value in their economic resources measurement focus financial statements. Record the fair value of the investment derivative instrument at year end. (1,500,126)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ (33,839,430)

CITY OF READING

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

Year Ended December 31, 2010

	General	Community Development	Capital Projects
Revenues:			
Real estate taxes	\$ 16,510,678	\$ -	\$ -
Act 511 taxes	15,934,823	-	-
Licenses, permits and fines	5,675,078	-	-
Intergovernmental	5,759,713	9,910,805	-
Charges for services	8,460,473	402,464	-
Interest and rent	1,188,091	-	6,815
Other	2,830,524	-	-
TOTAL REVENUES	56,359,380	10,313,269	6,815
Expenditures:			
Current:			
General government	6,497,976	-	-
Public safety			
Police	24,587,176	-	-
Fire	11,841,007	-	-
EMS	3,403,404	-	-
Public works - highways and streets	628,958	-	-
Public works - other	5,829,894	-	-
Community development	2,482,390	10,935,499	-
Culture and recreation	1,003,885	-	-
Other	1,634,375	-	-
Capital outlays	-	-	6,508,762
Debt service - principal	2,091,776	-	-
Debt service - interest	6,824,258	-	-
TOTAL EXPENDITURES	66,825,099	10,935,499	6,508,762
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,465,719)	(622,230)	(6,501,947)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	17,280,000	-	-
Bond discounts	(162,339)	-	-
Transfers to component unit	(30,000)	-	-
Operating transfers in	16,745,724	-	-
Operating transfers out	(1,702,435)	-	(9,225,724)
TOTAL OTHER FINANCING SOURCES (USES)	32,130,950	-	(9,225,724)
NET CHANGE IN FUND BALANCES	21,665,231	(622,230)	(15,727,671)
FUND BALANCES - BEGINNING, as restated	(10,509,759) *	791,815	17,574,405
FUND BALANCES - ENDING	\$ 11,155,472	\$ 169,585	\$ 1,846,734

* Capital reserve fund was closed to the general fund in the current year. In the capital reserve fund, a long-term receivable of \$3,978,606 was deferred and removed from fund balance.

See accompanying notes.

Agency Fund	Nonmajor Funds	Total Governmental Funds
\$ -	\$ -	\$ 16,510,678
-	-	15,934,823
-	-	5,675,078
11,780,452	1,299,357	28,750,327
-	-	8,862,937
-	6,489	1,201,395
103,053	-	2,933,577
11,883,505	1,305,846	79,868,815
-	-	6,497,976
419,060	-	25,006,236
104,269	-	11,945,276
-	-	3,403,404
-	1,199,491	1,828,449
-	-	5,829,894
10,793,528	-	24,211,417
433,396	-	1,437,281
-	-	1,634,375
-	-	6,508,762
-	-	2,091,776
-	-	6,824,258
11,750,253	1,199,491	97,219,104
133,252	106,355	(17,350,289)
-	-	17,280,000
-	-	(162,339)
-	-	(30,000)
-	-	16,745,724
-	-	(10,928,159)
-	-	22,905,226
133,252	106,355	5,554,937
573,430	865,660	9,295,551
<u>\$ 706,682</u>	<u>\$ 972,015</u>	<u>\$ 14,850,488</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, 2010

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 5,554,937

**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	\$ 9,919,455	
Less: Depreciation Expense	<u>(3,247,432)</u>	6,672,023

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	32,820	
Notes Receivable	<u>(1,472,401)</u>	(1,439,581)

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	(17,280,000)	
Amortization of Bond Discount	142,461	
Amortization of Deferred Gains/Losses on Bond Issuance	(325,738)	
Repayment of Bond Principal	2,191,776	
Amortization of Bond Issuance Costs	<u>250,685</u>	(15,020,816)

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, 2010

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.	(1,069,236)
Recognition of investment income related to change in fair value of the investment derivative instrument	(762,064)
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.	251,879
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.	367,572
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. The 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.	<u>(519,271)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (8,338,291)</u></u>

CITY OF READING

STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUNDS

Year Ended December 31, 2010

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 6,036,466	\$ 21,969,976	\$ 1,924,727	\$ 29,931,169	\$ 167,271
Investments	114,950	-	-	114,950	3,404,849
Accounts receivable, net of allowance of \$6,900,535	2,366,043	2,976,489	2,143,886	7,486,418	-
Interfund receivables	5,694,526	1,401,618	338,888	7,435,032	3,564,782
Intergovernmental receivables	-	2,602,425	-	2,602,425	-
Other receivables	43,984	-	-	43,984	-
Inventory	1,695,950	-	-	1,695,950	-
Total current assets	15,951,919	28,950,508	4,407,501	49,309,928	7,136,902
Restricted assets					
Cash and investments	16,610,866	14,037,365	-	30,648,231	-
Other noncurrent assets					
Unamortized bond issue costs	967,226	1,080,429	-	2,047,655	-
Leased land rights	1,020,000	-	-	1,020,000	-
Land	2,059,359	15,000	-	2,074,359	-
Buildings	7,789,674	38,216,252	-	46,005,926	-
Improvements	57,335,279	26,776,277	-	84,111,556	-
Machinery and equipment	9,745,179	8,451,677	818,715	19,015,571	-
Construction in progress	9,601,615	19,684,016	-	29,285,631	-
Less: accumulated depreciation	(39,367,087)	(35,405,672)	(393,934)	(75,166,693)	-
Total other noncurrent assets	49,151,245	58,817,979	424,781	108,394,005	-
TOTAL ASSETS	\$ 81,714,030	\$ 101,805,852	\$ 4,832,282	\$ 188,352,164	\$ 7,136,902

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	\$1,234,146	\$ 1,092,250	\$ 337,116	\$ 2,663,512	\$ 70,305
Interfund payables	7,938,842	6,030,209	2,897,235	16,866,286	3,095,425
Accrued interest	114,079	-	-	114,079	-
Accrued claims	-	-	-	-	2,594,121
Escrow deposits	92,808	-	-	92,808	-
Deferred revenue	-	-	763,415	763,415	-
Current portion notes and bonds payable	2,722,800	1,194,662	-	3,917,462	-
Total current liabilities	12,102,675	8,317,121	3,997,766	24,417,562	5,759,851
Noncurrent liabilities					
Other post employment benefits obligations	153,631	196,933	12,393	362,957	-
Unamortized bond premium	758,731	-	-	758,731	-
Unamortized bond discount	-	(535,339)	-	(535,339)	-
Deferred loss on bond issuance	(297,699)	(353,516)	-	(651,215)	-
Unamortized interest on capital appreciation bonds	(4,777,137)	-	-	(4,777,137)	-
Derivative instrument	332,995	-	-	332,995	-
Notes and bonds payable	56,059,568	35,771,294	-	91,830,862	-
Total noncurrent liabilities	52,230,089	35,079,372	12,393	87,321,854	-
TOTAL LIABILITIES	64,332,764	43,396,493	4,010,159	111,739,416	5,759,851
NET ASSETS					
Invested in capital assets, net of related debt	13,705,164	28,716,221	424,781	42,846,166	-
Restricted for debt service	4,044,555	-	-	4,044,555	-
Restricted for capital projects	-	6,981,593	-	6,981,593	-
Unrestricted net assets	(368,453)	22,711,545	397,342	22,740,434	1,377,051
TOTAL NET ASSETS	17,381,266	58,409,359	822,123	76,612,748	1,377,051
TOTAL LIABILITIES AND NET ASSETS	\$ 81,714,030	\$ 101,805,852	\$ 4,832,282	\$ 188,352,164	\$ 7,136,902

CITY OF READING

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

Year Ended December 31, 2010

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
OPERATING REVENUES			
Charges for services	\$20,938,005	\$ 28,937,405	\$ 5,396,434
Other	51,546	-	38,300
TOTAL OPERATING REVENUES	20,989,551	28,937,405	5,434,734
OPERATING EXPENSES			
Personnel	4,993,862	5,588,439	851,709
Depreciation and amortization	2,155,199	2,173,313	108,506
Other	7,434,931	7,491,628	4,193,583
TOTAL OPERATING EXPENSES	14,583,992	15,253,380	5,153,798
NET OPERATING INCOME (LOSS)	6,405,559	13,684,025	280,936
NONOPERATING REVENUES (EXPENSES)			
Grants	101,594	-	237,240
Interest income	220,433	44,002	-
Interest expense	(2,232,292)	(2,419,049)	-
Change in derivative instrument	(106,520)	-	-
Other	15,246	1,196	(44,424)
NET NONOPERATING REVENUES (EXPENSES)	(2,001,539)	(2,373,851)	192,816
INCOME (LOSS) BEFORE OPERATING TRANSFERS	4,404,020	11,310,174	473,752
Operating transfers in	-	-	-
Operating transfers out	(5,235,903)	(4,057,733)	-
NET INCOME (LOSS)	(831,883)	7,252,441	473,752
NET ASSETS, BEGINNING OF YEAR	18,213,149	51,156,918	348,371
NET ASSETS, END OF YEAR	\$ 17,381,266	\$ 58,409,359	\$ 822,123

See accompanying notes.

Total Enterprise Funds	Internal Service Funds
\$ 55,271,844	\$ -
89,846	142,653
<hr/>	<hr/>
55,361,690	142,653
11,434,010	70,909
4,437,018	-
19,120,142	3,200,823
<hr/>	<hr/>
34,991,170	3,271,732
<hr/>	<hr/>
20,370,520	(3,129,079)
338,834	-
264,435	20,580
(4,651,341)	-
(106,520)	-
(27,982)	-
<hr/>	<hr/>
(4,182,574)	20,580
<hr/>	<hr/>
16,187,946	(3,108,499)
-	3,476,071
(9,293,636)	-
<hr/>	<hr/>
6,894,310	367,572
<hr/>	<hr/>
69,718,438	1,009,479
<hr/>	<hr/>
<u>\$ 76,612,748</u>	<u>\$ 1,377,051</u>

CITY OF READING
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2010

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 21,106,080	\$ 28,535,092	\$ 5,552,150
Cash payments to employees for services	(5,048,626)	(5,580,480)	(850,370)
Cash payments to suppliers for goods and services	(7,465,264)	3,454,480	(4,099,598)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	8,592,190	26,409,092	602,182
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating revenues/expenses, net	15,246	1,196	(44,424)
Grants	101,594	-	237,240
Operating transfers in	-	-	-
Operating transfers out	(5,235,903)	(4,057,733)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(5,119,063)	(4,056,537)	192,816
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of rights to leased land	(1,020,000)	-	-
Proceeds from note payable	4,647,923	-	-
Advance from bond proceeds account	3,672,938	-	-
Acquisition of property and equipment	(8,800,268)	(3,452,480)	(272,062)
Interest paid	(1,610,158)	(2,419,049)	-
Payments of long-term debt	(1,792,844)	(3,642,534)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,902,409)	(9,514,063)	(272,062)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	220,433	44,002	-
Net purchase (redemption) of investments	-	2,561,515	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	220,433	2,605,517	-
NET INCREASE (DECREASE) IN CASH	(1,208,849)	15,444,009	522,936
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,245,315	6,525,967	1,401,791
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,036,466</u>	<u>\$ 21,969,976</u>	<u>\$ 1,924,727</u>

See accompanying notes.

<u>Totals</u>	<u>Internal Service Fund</u>
\$ 55,193,322	\$ 145,154
(11,479,476)	(70,909)
<u>(8,110,382)</u>	<u>(4,461,667)</u>
35,603,464	(4,387,422)
(27,982)	-
338,834	-
-	3,476,071
<u>(9,293,636)</u>	<u>-</u>
(8,982,784)	3,476,071
(1,020,000)	-
4,647,923	-
3,672,938	-
(12,524,810)	-
(4,029,207)	-
<u>(5,435,378)</u>	<u>-</u>
(14,688,534)	-
264,435	20,580
<u>2,561,515</u>	<u>(16,093)</u>
2,825,950	4,487
14,758,096	(906,864)
<u>15,173,073</u>	<u>1,074,135</u>
<u>\$ 29,931,169</u>	<u>\$ 167,271</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2010

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 6,405,559	\$ 13,684,025	\$ 280,936
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	2,155,199	2,173,313	108,506
Amortization of bond issue costs	70,525	49,600	-
Amortization of bond (premium) discount costs	-	23,445	-
Amortization of deferred loss on bond issuance	60,549	316,412	-
Net (increase) decrease in assets:			
Accounts receivable	(79,039)	(402,313)	(645,999)
Other receivables	134,972	-	-
Prepaid expenses	49,108	-	-
Due from other funds	36,260	11,532,430	3,444
Due from other governments	-	34,295	-
Inventory	(425,105)	-	-
Net increase (decrease) in liabilities:			
Accounts payable	1,238,800	(2,077,281)	(92,998)
Due to other funds	(1,060,470)	1,067,206	183,539
Other liabilities	5,832	7,960	764,754
Accrued claims	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 8,592,190	\$ 26,409,092	\$ 602,182

See accompanying notes.

<u>Totals</u>	<u>Internal Service Fund</u>
\$ 20,370,520	\$ (3,129,079)
4,437,018	-
120,125	-
23,445	-
376,961	-
(1,127,351)	2,501
134,972	-
49,108	-
11,572,134	(1,738,035)
34,295	-
(425,105)	-
(931,479)	(151,774)
190,275	278,087
778,546	-
-	350,878
<u>\$ 35,603,464</u>	<u>\$ (4,387,422)</u>

CITY OF READING
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2010

ASSETS	<u>Total Trust Funds</u>	<u>Agency Earned Income Tax Fund</u>
Cash and cash equivalents	\$ 15,023,128	\$ 1,279,571
Investments	156,924,684	686,536
Intergovernmental receivable	-	500
Interfund receivable	781,728	2,186,492
	<u>781,728</u>	<u>2,186,492</u>
TOTAL ASSETS	\$ 172,729,540	\$ 4,153,099
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 269,744	\$ 1,967
Interfund payable	-	218,000
Funds held in escrow	-	3,933,132
	<u>269,744</u>	<u>3,933,132</u>
TOTAL LIABILITIES	269,744	4,153,099
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>172,459,796</u>	<u>-</u>
TOTAL NET ASSETS AND LIABILITIES	\$ 172,729,540	\$ 4,153,099

CITY OF READING

STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2010

ADDITIONS

Contributions	
Member, city and state contributions	\$ 9,427,657
Investment income	
Interest and dividends	3,524,016
Realized and unrealized gain (loss) on sale of investments	<u>15,749,780</u>
TOTAL ADDITIONS	28,701,453

DEDUCTIONS

Benefits, including tax withheld	15,124,978
Administrative expenses	900,371
Refunds paid	<u>216,035</u>
TOTAL DEDUCTIONS	<u>16,241,384</u>

NET INCREASE 12,460,069

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

159,999,727

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

\$ 172,459,796

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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. Those services include: public safety (police, fire, and emergency medical services), highways and streets, sanitation, economic development, cultural and recreational, public improvements, planning and zoning, and general administrative services.

The major accounting principles and practices followed by the City are presented below to assist the reader in evaluating the financial statements and the accompanying notes.

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, 2010.

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.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- 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.

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 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, 2010

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, 2010, were immaterial to the basic financial statements taken as a whole.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, 2010

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 and health care 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, 2010

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, 2010

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.

Agency Funds: These special revenue funds are established for the purpose of accumulating special purpose grants and other resources for purposes (other than for community development of capital projects) that are restricted to expenditures for specified purposes as imposed by outside parties.

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, 2010

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, 2010

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, 2010

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, 2010

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.

Subsequent Events - In preparing these financial statements, the City has evaluated events and transactions for potential recognition and disclosure through September 12, 2011, the date the financial statements were available to be issued.

On April 20, 2011, the City issued General Obligation Notes (GON) Series 2011 A and B. The proceeds for GON Series 2011A totaled \$20,945,000 and were used to advance refund the General Obligation Bonds, Series of 2002, and pay the termination fee for the swap related to General Obligation Bonds, Series of 2002. The proceeds for GON Series 2011B totaled \$320,000 and were used to pay the remaining balance of the termination fee.

Reading Area Water Authority awarded \$3,972,000 of capital project awards from January through June 2011 and also purchased property for administrative offices for \$365,000 in June 2011.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY- CONTINUED

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.

Excess of Expenditures over Appropriations

For the year ended December 31, 2010, expenditures exceeded appropriations in the general operating fund. The excess expenditures were satisfied by the issuance of long-term debt.

Net Asset Deficit and Liquidity

As of December 31, 2010, the City, in its statement of assets, shows a total net deficit of \$38,699,682 for governmental activities. A structural imbalance had been growing over years as a result of demographic shifts of residents and businesses, non-profit legislation and a stagnant taxation authority for the City which has led to this deficit. The largest components of the unrestricted deficit are principally the general obligation debt to meet funding requirements to the Pension Fund, borrowings to finance economic development efforts, maintenance, and equipment expenditures on City infrastructure. The City's debt service expenditures in its governmental funds were \$8,916,034, 9.2% of its total expenditures, and the City used 27.5% of its current tax revenues to finance debt service requirements.

In October, 2009, the City sought municipal self-help as a "financially distressed" municipality under the Municipalities Financial Recovery Act (Act 47) of the Commonwealth of Pennsylvania. The Act 47 coordinators appointed by the Commonwealth issued their five-year recovery plan, which was originally adopted by the City Council on June 11, 2010. During 2010, the City continued efforts to control costs, improve collections, and maintain solvency. The cash balance available for general operations of the City as of December 31, 2010 was \$254,045. In order to pay current obligations until tax revenues were received, the City issued a general obligation bond for \$17,280,000 in December of 2010. This was sufficient to maintain normal functions of the City. Currently, the Act 47 coordinators will provide continued oversight to ensure compliance with the operating budget and the approved five-year plan.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The carrying amount of cash and investments at December 31, 2010 consist of the following:

	Primary Government	Blended Component Unit	Total
Petty cash	\$ 10,825	\$ 300	\$ 11,125
Demand deposit accounts	49,080,235	5,972,539	55,052,774
Pooled cash and investments	14,424,523	-	14,424,523
Investments	161,175,648	16,514,490	177,690,138
			<u>\$ 247,178,560</u>

Classification per statement of net assets and trust statements:

Unrestricted current assets, cash	\$ 38,664,824
Investments	3,951,586
Restricted current assets	30,648,231
Trust and agency cash and cash equivalents	16,302,699
Trust and agency investments	157,611,220
	<u>\$ 247,178,560</u>

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, 2010, the carrying amount of the City's deposits was \$55,052,774 and the bank balance was \$63,397,788. Of the balance, \$1,763,272 was covered by federal depository insurance and \$61,634,516 was exposed to custodial credit risk.

A portion of the City's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objectives are to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. The carrying amount and bank balance amount was \$14,424,523.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

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.

Investments

As of December 31, 2010, the City had the following nonpension investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2010		
		0-3 Years	4-7 Years	8-10 Years
Federal Home Loan Bank	\$ 74,264	\$ 74,264	\$ -	\$ -
Federal Home Loan Mortgage Corporation	521,546	384,136	137,410	-
Federal National Mortgage Association	303,396	303,396	-	-
US Treasury Notes	769,591	398,287	371,304	-
US Treasury Bonds	34,324	-	34,324	-
Federated Treasury Obligation Funds	5,772,210	5,772,210	-	-
Federal National Mortgage Association Note	3,742,280	3,742,280	-	-
	<u>11,217,611</u>	<u>\$ 10,674,573</u>	<u>\$ 543,038</u>	<u>\$ -</u>
Money Market Funds	2,215,400			
Certificates of Deposits	<u>7,332,443</u>			
	<u>\$ 20,765,454</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.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2010, 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 Notes	AAA
US Treasury Bonds	AAA

The Component Unit, Reading Area Water Authority does not have an investment policy that would limit its investment choices to certain credit ratings. However, the Authority limits the type of investments permitted as defined in the Local Government Unit Debt Act and the Municipal Authorities Act.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in the General Fund, Proprietary Funds (Internal Service), and Fiduciary Funds (Earned Income Tax). These investments are 8.3%, 73.4%, and 14.8%, respectively, of the City's total investments. More than 5% of the City's total governmental funds include the General Fund and Nonmajor Funds (Agency), at 89.5% and 10.4%, respectively. In the business-type activities, more than 5% of the investments are in the Proprietary Funds (Internal Service). These investments are 96.7% 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, 2010, the carrying amount of the City's nonpension investments was \$20,765,454 (includes restricted investments). Of the balance, \$600,574 was covered by federal depository insurance and \$20,164,880 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.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

As of December 31, 2010, the City had the following cash and investments in its pension trust funds:

<u>Police</u>	Fair Market Value	Investment Maturities from December 31, 2009			
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years
Cash or Investment Type					
Corporate Bonds	\$ 7,271,914	\$ 92,274	\$ 4,168,071	\$ 2,671,253	\$ 340,316
Government Bonds	10,063,854	285,145	6,121,272	2,857,292	800,145
Mortgage Backed Securities	-	-	-	-	-
Foreign Bonds	1,341,014	-	1,164,179	163,484	13,351
Gov't Asset Backed Securities	5,936,263	-	-	-	5,936,263
Total Debt Securities	24,613,045	<u>\$ 377,419</u>	<u>\$ 11,453,522</u>	<u>\$ 5,692,029</u>	<u>\$ 7,090,075</u>
Cash and Cash Equivalents	1,405,657				
Equity Mutual Funds	44,528,913				
Total Cash and Investments	<u>\$ 70,547,615</u>				

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Pension Trust Fund - continued

<u>Paid Firemen</u>	Fair Market Value	<u>Investment Maturities from December 31, 2009</u>		
		<u>0 - 5 years</u>	<u>5 - 10 years</u>	<u>More than 10 years</u>
Cash or Investment Type				
Asset Backed	\$ 81,840	\$ 50,689	\$ 31,151	\$ -
Corporate Bonds	4,473,199	2,332,817	1,773,416	366,966
Collateralized Mortgage Obligations	9,722	-	-	9,722
Foreign Bonds and Notes	735,146	553,473	125,229	56,444
Agency	313,670	272,839	28,026	12,805
Mortgage Backed	1,619,968	87,458	255,126	1,277,384
Other	423,695	423,695	-	-
Treasuries - Notes and Bonds	4,616,153	2,422,726	1,722,533	470,894
Total Debt Securities	12,273,393	<u>\$ 6,143,697</u>	<u>\$ 3,935,481</u>	<u>\$ 2,194,215</u>
Cash and Cash Equivalents	242,300			
Equity Mutual Funds	27,255,479			
Due to Brokers	(167,397)			
Total Cash and Investments	<u>\$ 39,603,775</u>			
<u>Officers & Employees</u>	<u>Fair Market Value</u>			
Cash and Cash Equivalents	\$ 23,913			
Fixed Funds	17,706,773			
Equity Funds	29,042,608			
Total Cash and Investments	<u>\$ 46,773,294</u>			

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, 2010, the pension trust funds' investment in corporate bonds ranged from AAA to BB.

Investments held in mutual funds are not subject to credit risk.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - 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, 2010, \$250,000 was covered by federal depository insurance and \$156,674,683 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, 2010. 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, 2010:

Unrestricted		
Deposits	\$ 3,393,174	
Petty cash	13,532	
		\$ 3,406,706
Restricted		
Deposits	\$ 1,771,393	
Investments	3,399,325	
		\$ 5,170,718

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, 2010, the carrying amount of the Authority's deposits was \$5,164,567 and the bank balance was \$5,188,204. As of December 31, 2010, \$501,094 was covered by federal depository insurance and \$4,687,110 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository agent was not in the Authority's name.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

The Authority is permitted to invest funds in:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities back by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approval collateral as provided by law therefore, shall be pledged by the depository.

As of December 31, 2010, the Authority had the following investments:

US Government Issues

	<u>Maturities</u>	<u>Fair Value</u>
Resolution FDG Corp Fed 0% Cpn Strips	4 months - 12 years	\$ 1,365,370
U.S. Treasury Strips	12 years	<u>2,033,955</u>
		<u>\$ 3,399,325</u>

Interest Rate Risk

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

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2010, 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. 59.8% of the Authority's investments are U.S. Treasury Strips and 40.2% are Resolution FDG Corp Fed 0% Cpn Strips for the year ended December 31, 2010.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Component Unit (Reading Redevelopment Authority)

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2010 was \$16,601 and the bank balance was \$20,152.

The Authority has funds invested with the Commonwealth of Pennsylvania's INVEST Program with a market value of \$1,401,524. 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, 2010, 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 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Government Fund Receivables, Uncollectible Accounts, and Deferred Revenue Accounts Receivable

Accounts Receivable

	<u>Major Government Fund General</u>	<u>Nonmajor Funds</u>	<u>Total Primary Government</u>
Grants and Accounts Receivable	\$ 2,760,993	\$ 4,235,321	\$ 6,996,314
Less Allowance	-	-	-
Accounts Receivable	<u>\$ 2,760,993</u>	<u>\$ 4,235,321</u>	<u>\$ 6,996,314</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

**NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE -
CONTINUED**

Real Estate Taxes and Receivables

Real estate taxes are based on assessed valuations provided by Berks County (County) and are levied on January 1 and billed March 1. The 2010 assessed value of real property totaled \$1,463,924,200. These taxes are billed and collected by the City of Reading tax office. Taxes paid through April 30 are given a 2% discount. Amounts paid after June 30 are assessed a 10% penalty. Any uncollected balances as of January 15 in the year following the billings are sent to the delinquent tax collector to be lienied. Current tax collections for the year ended December 31, 2010 were 90.3% of the tax levy.

For 2010, Township real estate taxes were levied at 11.945 mills for general purposes.

Real estate taxes receivable as of December 31, 2010 are \$2,555,312 after allowing \$255,531 for uncollectible amounts. A receivable for other taxes in the amount of \$183,527 has been recorded by the City.

Business Type Activities Receivables, Uncollectible Accounts and Deferred Revenue

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

	Major Enterprise		Other Enterprise (Recycling)	Total Primary Government	Component Units	
	Water	Sewer			Reading Parking Authority	Reading Redevelopment Authority
	Accounts receivable, gross	\$ 5,127,274			\$ 5,613,487	\$ 3,646,192
Less: allowance uncollectible accounts	<u>2,761,231</u>	<u>2,636,998</u>	<u>1,502,306</u>	<u>6,900,535</u>	<u>-</u>	<u>-</u>
Net accounts receivable	<u>\$ 2,366,043</u>	<u>\$ 2,976,489</u>	<u>\$ 2,143,886</u>	<u>\$ 7,486,418</u>	<u>\$ 175,759</u>	<u>\$ -</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

**NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE -
CONTINUED**

On December 7, 2010, Component Unit (Reading Redevelopment Authority) agreed to provide GoogleWorks Apartments, LLC a short term loan in the amount of \$300,000. The note earns interest at the rate of 2% annually. Principal and interest payment is due on or before June 30, 2011. The outstanding note balance as of December 31, 2010 was \$300,000 and accrued interest of \$396.

NOTE 5 - 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, 2010:

	Primary Government			Component Units	
	City of Reading Sewer Fund	Reading Area Water Authority	Total	Reading Parking Authority	Reading Redevelopment Authority
Construction Account	\$ 14,037,365	\$ 12,376,828	\$ 26,414,193	\$ 3,401	\$ 8,950
Debt Service Account	-	3	3	2	1
Debt Service Reserve Account	-	4,044,552	4,044,552	5,156,220	-
Clearing Account	-	93,107	93,107	10,001	28
Other	-	96,376	96,376	1,094	732
Total	\$ 14,037,365	\$ 16,610,866	\$ 30,648,231	\$ 5,170,718	\$ 9,712

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 280,960	\$ -	\$ -	\$ 280,960
Construction in progress	4,768,203	6,720,063	(2,185,338)	9,302,928
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	5,049,163	6,720,063	(2,185,338)	9,583,888
Capital assets being depreciated:				
Buildings	28,462,920	-	-	28,462,920
Machinery and equipment	32,459,209	297,497	-	32,756,706
Improvements	14,715,544	5,087,233	-	19,802,777
Infrastructure	5,213,266	-	-	5,213,266
Totals at historical cost	80,850,939	5,384,730	-	86,235,669
Less accumulated depreciation for:				
Buildings	14,029,471	608,673	-	14,638,144
Machinery and equipment	24,409,723	1,736,805	-	26,146,528
Improvements	3,710,551	741,574	-	4,452,125
Infrastructure	2,969,372	160,380	-	3,129,752
Total accumulated depreciation	45,119,117	3,247,432	-	48,366,549
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	35,731,822	2,137,298	-	37,869,120
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 40,780,985	\$ 8,857,361	\$ (2,185,338)	\$ 47,453,008

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 6 - CAPITAL ASSETS - CONTINUED

Business-Type Activities	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,074,359	\$ -	\$ -	\$ 2,074,359
Construction in progress	<u>22,898,443</u>	<u>11,265,815</u>	<u>(4,878,627)</u>	<u>29,285,631</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	24,972,802	11,265,815	(4,878,627)	31,359,990
Capital assets being depreciated:				
Buildings	46,005,926	-	-	46,005,926
Machinery and equipment	16,756,536	2,259,035	-	19,015,571
Improvements	<u>80,232,967</u>	<u>3,878,589</u>	-	<u>84,111,556</u>
Totals at historical cost	142,995,429	6,137,624	-	149,133,053
Less accumulated depreciation for:				
Buildings	24,328,923	837,145	-	25,166,068
Machinery and equipment	11,437,873	1,035,238	-	12,473,111
Improvements	<u>35,027,266</u>	<u>2,500,248</u>	-	<u>37,527,514</u>
Total accumulated depreciation	70,794,062	4,372,631	-	75,166,693
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>72,201,367</u>	<u>1,764,993</u>	-	<u>73,966,360</u>
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 97,174,169</u>	<u>\$ 13,030,808</u>	<u>\$ (4,878,627)</u>	<u>\$ 105,326,350</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 6 - CAPITAL ASSETS - CONTINUED

	Beginning Balance	Increase	Decrease	Ending Balance
Component Unit - Reading Parking Authority				
Capital assets not being depreciated:				
Land	\$ 2,614,070	\$ -	\$ -	\$ 2,614,070
Construction in progress	7,639,407	7,125,426	(14,764,833)	-
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	10,253,477	7,125,426	(14,764,833)	2,614,070
Capital assets being depreciated:				
Buildings	46,051,194	14,985,691	-	61,036,885
Machinery and equipment	1,628,081	9,152	-	1,637,233
Improvements	144,620	-	-	144,620
Totals at historical cost	47,823,895	14,994,843	-	62,818,738
Less accumulated depreciation for:				
Buildings	17,867,689	1,275,153	-	19,142,842
Machinery and equipment	1,087,041	85,139	-	1,172,180
Improvements	113,195	2,749	-	115,944
Total accumulated depreciation	19,067,925	1,363,041	-	20,430,966
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	28,755,970	13,631,802	-	42,387,772
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$ 39,009,447</u>	<u>\$ 20,757,228</u>	<u>\$ (14,764,833)</u>	<u>\$ 45,001,842</u>

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

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,329,284	Water system	\$ 2,090,812
Public safety:		Sewer system	2,173,313
Police	479,664	Recycling	<u>108,506</u>
Fire	460,854		
Public works - highway/streets	187,038		<u>\$ 4,372,631</u>
Community development	197,378		
Culture and recreation	<u>593,214</u>		
	<u>\$ 3,247,432</u>		

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2010:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 13,655,659	\$ 3,240,005
Community Development	428,319	2,582,976
Capital Projects	166,000	462,805
Agency Fund	902,246	-
Nonmajor Governmental Funds	85,412	2,740,173
Internal Service	3,564,782	3,095,425
Business-Type Activities		
Major Funds		
Water	5,694,526	7,938,842
Sewer	1,401,618	6,030,209
Nonmajor Proprietary Funds	338,888	2,897,235
	<u>26,237,450</u>	<u>28,987,670</u>
 Fiduciary and Agency Funds	 <u>2,968,220</u>	 <u>218,000</u>
	<u>\$ 29,205,670</u>	<u>\$ 29,205,670</u>

Interfund receivables and payables are a result of timing differences between when a cost is incurred and when it is paid. It is also the result of interfund charges not yet reimbursed.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2010:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$ 16,745,724	\$ 1,702,435
Capital Projects	-	9,225,724
Internal Service Funds	3,476,071	-
Business-Type Activities		
Water	-	5,235,903
Sewer	-	4,057,733
	<u>\$ 20,221,795</u>	<u>\$ 20,221,795</u>

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

NOTE 8 - LIABILITIES

In January 2010, the City issued tax and revenue anticipation notes in the amount of \$6,200,000, which included interest at 2.63%. In September 2010, the City issued another tax and revenue anticipation note in the amount of \$3,200,000, which included interest at 2.30%. The notes were repaid in 2010.

<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at End of Year</u>
\$ -	\$ 9,400,000	\$ 9,400,000	\$ -

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Governmental Activities					
Bonds Payable and Other Long-Term Liabilities					
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.	\$ 24,690,000	\$ -	\$ 590,000	\$ 24,100,000	\$ 785,000
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.	2,570,000	-	-	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.	32,905,000	-	-	32,905,000	-
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.	13,237,543	-	309,746	12,927,797	318,638
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.	4,785,000	-	445,000	4,340,000	465,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 8 - LIABILITIES - CONTINUED

Governmental Activities	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Other Long-Term Liabilities - continued:</u>					
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.	450,020	-	450,020	-	-
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.	40,711,518	-	91,200	40,620,318	2,053,200
General Obligation Bonds, Series of 2009, with 3.0% - 5.0% interest payable through 2029. Proceeds were used to currently refund a the General obligation Line of Credit of 2006, fund various capital projects of the City, fund the termination payment for fixed payer swap and pay	25,000,000	-	-	25,000,000	5,000
General Obligation Bonds, Series C of 2010, with 7.5% interest payable through 2020. Proceeds were used to pay unfunded debt of the City and pay bond issue costs.	-	17,280,000	-	17,280,000	1,130,000
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.	5,948,240	-	205,810	5,742,430	218,737
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.	3,615,000	-	100,000	3,515,000	100,000
Compensated absences	1,077,405	-	251,879	825,526	-
TOTAL	154,989,726	17,280,000	2,443,655	169,826,071	5,075,575
Less: unamortized interest on Capital Appreciation Bonds	(7,125,635)	-	(970,315)	(6,155,320)	(22,972)
Total Governmental Activities	\$ 147,864,091	\$ 17,280,000	\$ (1,473,340)	\$ 163,670,751	\$ 5,052,603

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 - 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>
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1% payable through 2012.	\$ 2,756,295	\$ -	\$ 1,322,462	\$ 1,433,833	\$ 1,335,748
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.	31,422,455	-	735,254	30,687,201	756,362
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.	2,891,980	-	2,891,980	-	-
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.	9,888,103	-	23,800	9,864,303	681,800
Note payable to bank with interest at a variable rate. Interest and principal payments due quarterly through 2011.	114,636	-	91,214	23,422	23,422
Note payable to Pennsylvania Infrastructure Investment Authority, 3.2% - 4% interest payable through 2018.	1,510,116	-	163,475	1,346,641	170,130

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 - 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					
Guaranteed Water Revenue Bonds, Series of 2002, 1.4% - 4.4% interest payable through 2017.	1,870,000	-	205,000	1,665,000	215,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020.	21,080,000	-	-	21,080,000	610,000
Guaranteed Water Revenue Bonds, Series of 2007, 4.25% - 5% interest payable through 2027.	25,000,000	-	-	25,000,000	125,000
Note payable to Pennsylvania Infrastructure Investment Authority, maximum drawdown of \$6,550,000 interest only for first 36 months. Principal and interest due monthly thereafter; interest at 1.274% for first five years and 2.547% thereafter. Guaranteed by the City of Reading.	-	2,875,070	-	2,875,070	-
Guaranteed Water Revenue Note, Series of 2009, maximum drawdown of \$6,550,000, interest payable at 3.15% principal due October 2012.	-	1,772,854	-	1,772,854	-
	96,533,585	4,647,924	5,433,185	95,748,324	3,917,462
Less: unamortized interest on Capital Appreciation Bonds	(5,437,378)	-	(660,241)	(4,777,137)	-
TOTAL	\$ 91,096,207	\$ 4,647,924	\$ 4,772,944	\$ 90,971,187	\$ 3,917,462
Component Unit - Reading Redevelopment Authority					
Long Term Liabilities					
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.	\$ 3,615,000	\$ -	\$ 100,000	\$ 3,515,000	\$ 100,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority: Bonds Payable and Other Long-Term Liabilities 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.	\$ 30,330,000	\$ -	\$ 2,760,000	\$ 27,570,000	\$ 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.	9,755,000	-	90,000	9,665,000	95,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<u>Component Unit - Reading Parking Authority</u>					
<u>Bonds Payable and Other Long-Term Liabilities -</u>					
<u>continued:</u>					
Build America Bond to be drawn on as needed to pay construction expenses relating to the 700 Penn Street project. Repayments of the note begin in 2010 in varying amounts. Interest is at a taxable fixed rate of 6.30% through November 15, 2009 and thereafter at an interest rate equal to the LIBOR rate plus 1.75% through 2026.	3,318,000	4,882,000	1,605,000	6,595,000	40,000
Grant Anticipation Note - Series of 2009, note for \$6,000,000. \$30,000 was drawn on the note as of December 31, 2009 to cover issuance costs and the balance will be drawn on as needed to pay construction expenses relating to costs for the construction of a new garage. The note is 4.25% per annum, and repayment is in 2012.	30,000	2,383,000	2,413,000	-	-
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.	281,475	-	7,231	274,244	7,570
	45,284,475	7,265,000	6,875,231	45,674,244	2,897,570
Less: unamortized interest on Capital Appreciation Bonds	(8,534,766)	-	(1,310,775)	(7,223,991)	-
Total Long-term Liabilities	<u>\$ 36,749,709</u>	<u>\$ 7,265,000</u>	<u>\$ 5,564,456</u>	<u>\$ 38,450,253</u>	<u>\$ 2,897,570</u>

Component unit - Reading Redevelopment Authority has debt outstanding of \$3,515,000 which was utilized in the construction of the consolidated Public Works facility. This debt was guaranteed by the City of Reading and is recorded and included in the City's governmental activities debt as a capital lease.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 8 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2010 are as follows:

	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 5,075,575	\$ 6,599,751	\$ 3,917,462	\$ 3,512,358
2012	5,736,537	6,488,011	5,967,984	3,547,079
2013	6,652,369	6,237,000	3,510,596	3,580,338
2014	6,824,741	6,082,425	3,564,119	3,602,371
2015	6,998,252	5,970,961	3,627,858	3,617,705
2016 - 2020	36,896,044	27,835,195	20,426,933	18,939,431
2021 - 2025	31,285,986	21,088,754	24,413,525	11,785,870
2026 - 2030	41,532,291	12,500,356	19,761,319	5,476,753
2031 - 2033	27,998,750	2,579,276	10,558,528	1,051,441
Less unamortized interest	(6,155,320)	-	-	-
Less capital lease interest	-	-	(4,777,137)	-
	<u>\$ 162,845,225</u>	<u>\$ 95,381,729</u>	<u>\$ 90,971,187</u>	<u>\$ 55,113,346</u>

The Reading Area Water Authority has an unused letter of credit of \$800,000 as of December 31, 2010.

* Amount includes the Reading Redevelopment Authority capital lease obligation that related to the Guarantee lease revenue bond, series of 2003.

Component Units	
Reading Parking Authority	
Principal	Interest
\$ 2,910,000	\$ 850,789
2,905,000	854,308
2,905,000	847,539
2,935,000	841,848
2,935,000	833,974
14,780,000	4,215,761
16,330,000	2,628,321
100,000	-
33,334	-
(7,223,991)	-
(159,090)	-
<u>\$ 38,450,253</u>	<u>\$ 11,072,540</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 8 - 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, 2010, outstanding general obligation bonds of the City in the amount of \$17,855,000 were considered defeased with a related \$18,995,364 held in escrow funds.

The City of Reading entered into a master lease agreement for an energy management system which is being treated as an operating lease. Terms of the lease agreement require 28 semi-annual payments beginning March, 2009 through September, 2022. Payments range from \$83,000 to \$119,500 during the term of the lease. Total cost of the system and services is \$2,000,000.

NOTE 9 - INVESTMENT DERIVATIVE INSTRUMENT/RESTATEMENT OF NET ASSETS

Introduction

In June, 2008, the GASB issued Statement 53, Accounting and financial Reporting for Derivative instruments (GASB 53). GASB 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The City adopted GASB 53 this fiscal year. All derivatives are to be reported on the statement of net assets at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument under GASB 53, the changes in fair value are either reported on the statement of net assets as a deferral, or in the statement of activities as investment revenue or loss.

The City engaged an independent party to perform the valuations on the Swaption, Swap and Water Authority Swap. Under GASB 53, the Swaption of City and the Water authority swap were deemed to be investment instruments and the change in fair value is reported in the statement of activities. The City Swap is considered a hedging derivative instrument with the fair value of the derivative reported as deferred outflow of \$3,442,423.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 9 - INVESTMENT DERIVATIVE INSTRUMENT/RESTATEMENT OF NET ASSETS - CONTINUED

Implementation and Restatement of Beginning Net Assets

The implementation of Statement No. 53 requires the restatement of beginning of net assets if ineffective at December 31, 2009. The beginning net assets of governmental activities were reduced by the fair value of the investment derivative instrument at December 31, 2009 by \$738,062. The change in fair value of \$762,064 was reported as investment loss in the current year. The beginning net assets of business activities were reduced by the fair value of the investment derivative instrument at December 31, 2009 by \$226,475. The change in fair value of \$106,520 was reported as investment loss in the current year.

Terms and Fair Value

The terms as of June 30, 2010, are as follows:

Product Type	Counter-party	Original/ Outstanding Notional	Effective Date	Maturity Date	Underlying Index	Market Value
Investment Derivatives SWAPTION	Wachovia	\$ 18,595,000	3/4/2005	11/15/2019	USD/Floating SIFMA swap index+ .30%	\$ (1,500,126)
WATER SWAP		21,080,000	7/1/2005	11/1/2020	USD/Floating - 67% of 30 day LIBOR USD/Floating/BMA/1W USD/Fixed 5.097%	(332,995)
Hedge SWAP	Wachovia	37,940,000	5/1/2009	11/1/2014	USD/Floating - 30 day LIBOR USD/Fixed 4.053%	(3,442,423)

The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

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 City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The current credit rating of Wachovia Bank, the counterparty, is Aa2, AA and AA- by Moody's, Standard and Poor's and Fitch, respectively.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 9 - INVESTMENT DERIVATIVE INSTRUMENT/RESTATEMENT OF NET ASSETS - CONTINUED

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 applicable counterparty. The City bears basis risk on its swaps. The swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis shortfall, the expected cost of the basis risk may vary.

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.

NOTE 10 - 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.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

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
Plan members	5% plus \$1 per month	5% plus \$5 per month	3%
Annual pension cost	\$ 2,607,362	\$ 1,380,603	\$ 800,416
Contributions made	3,206,234	1,587,874	1,670,803

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

	PPP	PFPP	NEPP
Valuation date	01/01/09	01/01/09	01/01/09
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, closed	Level dollar, closed
Remaining amortization period	23 years	14 years	20 years
Asset valuation method	130% of market value	130% of market value	130% of market value (4 yr. smoothing)
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, 2010

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2008	\$ 1,705,470	100%
2009	2,428,329	100%
2010	2,607,362	123%
FIREMEN'S PENSION FUND		
2008	\$ 1,289,485	100%
2009	1,346,126	100%
2010	1,380,603	115%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2008	\$ 598,539	100%
2009	775,359	100%
2010	800,416	209%

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2009, 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	\$ 85,324,284	\$ 116,213,452	\$ 30,889,168	73.42 %	\$11,349,615	272.16 %
PFPP	49,852,024	56,291,280	6,439,256	88.56	8,018,210	80.31
NEPP	53,650,657	60,800,584	7,149,927	88.24	15,450,113	46.27

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, 2010

NOTE 11 - POST EMPLOYMENT BENEFITS

Plan Description:

The City of Reading sponsors a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides medical and pharmacy benefits plus 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 hired prior to January 1, 2011, 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. Certain employees hired on or after June 1, 2010 and firefighters hired on or after January 1, 2011 are not eligible for benefits. For the fiscal year ended December 31, 2010, the City contributed \$2,210,000 to the plan related to retirees.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 11 - POST EMPLOYMENT BENEFITS - CONTINUED

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:

	Original 12/31/2009	Revised 12/31/2009	12/31/2010
Annual required contribution	\$ 2,587,893	\$ 2,587,895	\$ 5,536,735
Interest on net OPEB obligation	-	55,320	97,069
Adjustment to annual required contribution	-	(71,973)	(140,338)
Annual OPEB Cost	2,587,893	2,571,242	5,493,466
Contributions made	-	(1,250,917)	(2,210,000)
Increase in net OPEB obligation	2,587,893	1,320,325	3,283,466
Net OPEB obligation - beginning of year	2,587,894	1,106,398	2,426,723
Net OPEB obligation - end of year	<u>\$ 5,175,787</u>	<u>\$ 2,426,723</u>	<u>\$ 5,710,189</u>

The Net OPEB obligation as of December 31, 2009 was re-developed to incorporate actual payments made in 2009 and earlier as provided by the City. The net increase in liability of \$534,402 was recorded in the Statement of Activities for the year ending December 31, 2010.

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, 2010 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	\$ 5,493,466	40.2%	\$ 5,710,189
12/31/2009	2,571,242	48.7%	2,426,723
12/31/2008	2,587,895	57.2%	1,106,398

Funded Status and Funding Progress:

As of December 31, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$67,683,582, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$67,683,582. 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%.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 11 - POST EMPLOYMENT BENEFITS - CONTINUED

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 December 31, 2010, actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend based on the Society of Actuaries-Getzen Model version 4.0 utilizing the baseline assumptions included in the model, except for an inflation assumption of 2.75% and a real GDP growth assumption of 1.9%. The unfunded actuarial accrued liability is being amortized over a 30-year period using the Projected Unit Credit Cost Method.

NOTE 12 - 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.

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 was in effect through December 31, 2010 and a new agreement was awarded in April 2011 effective through December 31, 2015.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

The City has entered into contracts for capital improvements related to the wastewater treatment plant, First Energy Stadium and other miscellaneous projects. At December 31, 2010, the balance of open with the contracts is \$5,497,238, \$5,846,422 and \$56,485, respectively.

The Reading Area Water Authority has entered into several contracts for capital improvements. At December 31, 2010, the balance of open contracts is \$1,578,000. The Authority purchased property to be used as an administrative office for \$365,000.

The Reading Area Water Authority has an unused letter of credit of \$800,000 at December 31, 2010.

NOTE 13 - 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	2010	
		Limit	Deductible
Property	St. Paul Travelers	\$ 212,736,573	\$ 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
		Cash value or	
Auto Property Damage	St. Paul Travelers	cost to repair	10,000
Excess Liability	St. Paul Travelers	4,000,000	10,000
Fire Equipment	St. Paul Travelers	282,705	500
Law Enforcement	Scottsdale	2,000,000	150,000
Employment Practices	Scottsdale	1,000,000	150,000

The City of Reading is recognized and meets the qualifications of the Pennsylvania Department of Labor and Industry as a Self-Insured Workers' Compensation Employer. As part of the qualifications to maintain self-insured status, the City of Reading purchases excess workers' compensation coverage for police claims that exceed \$1,000,000 and all other claims that exceed \$450,000. 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 \$2,594,121.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 13 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

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

The City had an actuarial study performed to estimate the workers' compensation liability. Based on past experience, management of the City believes incurred, but not reported claims, to be immaterial and therefore, has not established an accrual for such claims at December 31, 2010. An analysis of claims activity is presented below:

	Beginning of Year Liabilities	Estimated Current Year Claims	Actual Claim Payments	Balance at Fiscal Year End
2010	\$ 2,243,243	\$ 3,476,070	\$ 3,125,192	\$ 2,594,121

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, 2010 was \$10,882,848.

NOTE 14 - FUND EQUITY AND CHANGE IN FUND BALANCES

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require 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 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 15 - NEW ACCOUNTING STANDARDS

The Government Accounting Standards Board ("GASB") has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information and classifies fund balances into the following categories - nonspendable, restricted, committed, assigned and unassigned. The City has not yet determined the impact of Statement No. 54 to its fund balances. The City is required to implement Statement No. 54 by the year ended December 31, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Real estate taxes	\$ 16,926,240	\$ 16,926,240	\$ 16,510,678	\$ (415,562)
Act 511 taxes	16,532,552	16,532,552	15,934,823	(597,729)
Licenses, permits and fines	5,816,687	5,816,687	5,675,078	(141,609)
Intergovernmental	4,833,920	4,833,920	5,759,713	925,793
Charges for services	8,004,011	8,004,011	8,460,473	456,462
Interest and rent	1,107,000	1,107,000	1,188,091	81,091
Other	4,129,400	4,129,400	2,830,524	(1,298,876)
TOTAL REVENUES	57,349,810	57,349,810	56,359,380	(990,430)
Expenditures:				
Current:				
General government	6,582,404	6,573,822	6,497,976	75,846
Public safety				
Police	22,615,541	22,615,541	24,587,176	(1,971,635)
Fire	11,507,792	11,507,792	11,841,007	(333,215)
EMS	3,160,233	3,160,232	3,403,404	(243,172)
Public works: highways and streets	597,685	667,341	628,958	38,383
Public works: other	5,498,867	5,429,212	5,829,894	(400,682)
Community development	2,460,698	2,460,697	2,482,390	(21,693)
Culture and recreation	976,915	976,915	1,003,885	(26,970)
Other	937,316	930,815	1,634,375	(703,560)
Debt service - principal	2,041,004	2,041,004	2,091,776	(50,772)
Debt service - interest	6,214,004	6,214,004	6,824,258	(610,254)
TOTAL EXPENDITURES	62,592,459	62,577,375	66,825,099	(4,247,724)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,242,649)	(5,227,565)	(10,465,719)	(5,238,154)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	17,280,000	17,280,000
Bond discounts	-	-	(162,339)	(162,339)
Transfers to component unit	-	-	(30,000)	(30,000)
Operating transfers in	7,055,000	7,055,000	16,745,724	9,690,724
Operating transfers out	(1,827,435)	(1,827,435)	(1,702,435)	125,000
TOTAL OTHER FINANCING SOURCES (USES)	5,227,565	5,227,565	32,130,950	26,903,385
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (15,084)	\$ -	21,665,231	\$ 21,665,231
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED			(10,509,759) *	
FUND BALANCE, END OF YEAR			\$ 11,155,472	

* Capital reserve fund was closed to the general fund in the current year. In the capital reserve fund a long-term receivable of \$3,978,606 was deferred and removed from fund balance.

CITY OF READING

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - RETIREMENT PLANS

December 31, 2010

I. SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
POLICE PENSION FUND						
01/01/05	\$ 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%
01/01/09	85,324,284	116,213,452	30,889,168	73.4%	11,349,615	272.2%
PAID FIREMEN'S PENSION FUND						
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%
01/01/09	49,852,024	56,291,280	6,439,256	88.6%	8,018,210	80.3%
OFFICERS' AND EMPLOYEES' PENSION FUND						
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%)
01/01/09	53,650,657	60,800,584	7,149,927	88.24%	15,450,113	46.27%

II. SCHEDULES OF EMPLOYER CONTRIBUTIONS

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2005	\$ 2,836,898	100%
2006	2,113,547	100%
2007	2,150,234	51%
2008	1,705,470	100%
2009	2,428,329	100+%
2010	2,607,362	100+%
FIREMEN'S PENSION FUND		
2005	\$ 147,968	100%
2006	94,761	100%
2007	822,235	39%
2008	1,289,485	100%
2009	1,346,126	100%
2010	1,380,603	100+%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2005	\$ 1,337,185	99%
2006	432,096	100%
2007	786,148	100%
2008	598,539	100+%
2009	775,359	100+%
2010	800,416	100+%

CITY OF READING

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
POST EMPLOYMENT BENEFITS PLAN

Year Ended December 31, 2010

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2010	\$ -	\$ 67,683,582	\$ 67,683,582	0.00%	N/A	N/A
12/31/2008	-	26,676,711	26,676,711	0.00%	N/A	N/A

Schedule of Employer Contributions

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>City Contributions</u>	<u>% of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2010	\$ 5,493,466	\$ 2,210,000	40.20%	\$ 5,710,189
12/31/2009	2,571,242	1,250,917	48.70%	2,426,726
12/31/2008	2,587,895	1,481,497	57.20%	1,106,398

CITY OF READING

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2010

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. Expenditures exceed appropriations by \$4,247,724.

The Community Development fund is a major special revenue 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, 2010

	Original Budget	Final Budget	Actual	Variance
REAL ESTATE TAXES	\$ 16,926,240	\$ 16,926,240	\$ 16,510,678	\$ (415,562)
ACT 511 Taxes				
Per capita tax	80,000	80,000	71,551	(8,449)
Per capita tax - prior years	11,000	11,000	43,777	32,777
Real estate transfer tax	2,500,000	2,500,000	2,805,093	305,093
Earned income tax	11,523,719	11,523,719	10,247,222	(1,276,497)
Occupation tax	825,000	825,000	839,849	14,849
Occupation tax - prior years	120,000	120,000	320,960	200,960
Business privilege tax	1,350,000	1,350,000	1,407,378	57,378
Business privilege tax - prior years	122,833	122,833	198,993	76,160
Total Act 511 Taxes	<u>16,532,552</u>	<u>16,532,552</u>	<u>15,934,823</u>	<u>(597,729)</u>
LICENSES, PERMITS AND FINES				
Food permits	65,000	65,000	104,625	39,625
Building and electrical	970,000	970,000	557,517	(412,483)
Trades licenses	135,000	135,000	132,890	(2,110)
Business privilege	275,000	275,000	261,115	(13,885)
Street and pavement	40,000	40,000	62,828	22,828
Zoning and land development	324,000	324,000	244,488	(79,512)
Housing	1,768,071	1,768,071	2,246,783	478,712
Tax administration licenses	15,000	15,000	12,115	(2,885)
Franchise fees	700,000	700,000	704,279	4,279
No parking signs	1,600	1,600	400	(1,200)
Traffic fines	350,000	350,000	366,027	16,027
Penalties and interest	100,000	100,000	105,549	5,549
District court	1,000,000	1,000,000	780,486	(219,514)
Other	73,016	73,016	95,976	22,960
Total Licenses, Permits and Fines	<u>5,816,687</u>	<u>5,816,687</u>	<u>5,675,078</u>	<u>(141,609)</u>
INTERGOVERNMENTAL				
Payments in lieu of taxes	90,000	90,000	122,589	32,589
Malt and liquor tax	40,000	40,000	25,550	(14,450)
Public utility tax	46,000	46,000	40,781	(5,219)
Snow and ice control	50,000	50,000	63,376	13,376
Reading Public Library	900,000	900,000	723,074	(176,926)
School guard	250,000	250,000	252,339	2,339
Pension - state aid	2,700,000	2,700,000	2,972,820	272,820
Volunteer Fire Relief Aid	60,000	60,000	49,855	(10,145)
Police training	130,000	130,000	109,250	(20,750)
Grant reimbursement - police	567,920	567,920	1,400,079	832,159
Total Intergovernmental	<u>4,833,920</u>	<u>4,833,920</u>	<u>5,759,713</u>	<u>925,793</u>

CITY OF READING

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

Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
Recreational facilities	15,000	15,000	30,264	15,264
Swimming pool	50,000	50,000	65,744	15,744
Pagoda and tower	5,000	5,000	9,090	4,090
School district tax collection	747,000	747,000	709,563	(37,437)
Tax certifications	44,000	44,000	33,300	(10,700)
Admissions fee/tax	450,000	450,000	512,513	62,513
Police services	1,115,211	1,115,211	997,586	(117,625)
Fire services	390,300	390,300	345,592	(44,708)
Ambulance services	3,144,750	3,144,750	2,738,451	(406,299)
Housing Authority	135,000	135,000	108,335	(26,665)
Public works	69,000	69,000	66,628	(2,372)
Meter surcharge	1,750,000	1,750,000	2,720,256	970,256
Other	88,750	88,750	123,151	34,401
Total Charges for Service	8,004,011	8,004,011	8,460,473	456,462
INTEREST AND RENT				
Interest on investments	10,000	10,000	16,249	6,249
CD bond interest	200,000	200,000	188,003	(11,997)
Stadium rental	22,000	22,000	22,000	-
Building rental	50,000	50,000	69,939	19,939
Parking Authority	550,000	550,000	583,329	33,329
Greater Berks	275,000	275,000	308,571	33,571
Total Interest and Rent	1,107,000	1,107,000	1,188,091	81,091
OTHER				
Sale of city property	665,000	665,000	15,283	(649,717)
Donation from water authority	500,000	500,000	500,000	-
Refund of prior year expenses	1,000	1,000	(510,879)	(511,879)
Recovery of damages	26,000	26,000	22,194	(3,806)
Indirect cost reimbursement:				
Community development	190,000	190,000	156,073	(33,927)
Recycling	170,000	170,000	134,340	(35,660)
Sewer	992,000	992,000	1,032,749	40,749
Water	700,000	700,000	689,392	(10,608)
Direct cost reimbursement				
Code services	350,000	350,000	358,213	8,213
Civic Service	25,000	25,000	-	(25,000)
Community development	38,000	38,000	22,238	(15,762)
Pension	38,000	38,000	-	(38,000)
Sewer	115,000	115,000	106,975	(8,025)
Grants and gifts	313,000	313,000	255,486	(57,514)
Other shared revenues	-	-	39,900	39,900
Miscellaneous	6,400	6,400	8,560	2,160
Total Other	4,129,400	4,129,400	2,830,524	(1,298,876)
TOTAL REVENUES	57,349,810	57,349,810	56,359,380	(990,430)

CITY OF READING

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

Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
OTHER FINANCING SOURCES				
Bond proceeds	-	-	17,280,000	17,280,000
Bond discount	-	-	(162,339)	(162,339)
Operating transfers in:				
Capital Reserve City	20,000	20,000	9,225,724	9,205,724
General Agency Fund	15,000	15,000	-	(15,000)
Water Fund	4,020,000	4,020,000	4,520,000	500,000
Sewer Fund	3,000,000	3,000,000	3,000,000	-
Total Other Financing Sources	<u>7,055,000</u>	<u>7,055,000</u>	<u>33,863,385</u>	<u>26,808,385</u>
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 <u>\$ 64,404,810</u>	 <u>\$ 64,404,810</u>	 <u>\$ 90,222,765</u>	 <u>\$ 25,817,955</u>

CITY OF READING

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

Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personal services	\$ 290,150	\$ 283,150	\$ 263,332	\$ 19,818
Other operating expenditures	21,250	28,250	19,852	8,398
City Council				
Personal services	214,937	214,937	241,729	(26,792)
Other operating expenditures	47,453	47,453	21,462	25,991
City Auditor				
Personal services	137,630	137,630	151,449	(13,819)
Other operating expenditures	-	-	-	-
Office of the Managing Director				
Personal services	257,862	250,237	207,472	42,765
Other operating expenditures	17,000	24,625	39,111	(14,486)
Department of Finance:				
Treasury				
Personal services	215,137	212,982	214,208	(1,226)
Other operating expenditures	2,648	2,648	483	2,165
Office of the Director				
Personal services	234,002	231,847	285,873	(54,026)
Other operating expenditures	1,890	8,390	7,782	608
Purchasing				
Personal services	79,281	77,129	79,274	(2,145)
Other operating expenditures	340,710	340,710	339,075	1,635
Accounting				
Personal services	310,737	308,582	324,733	(16,151)
Other operating expenditures	3,200	3,200	35,592	(32,392)
Tax Administration				
Personal services	805,400	796,974	834,934	(37,960)
Other operating expenditures	118,125	121,389	130,807	(9,418)
Mailroom				
Personal services	52,648	52,648	19,076	33,572
Other operating expenditures	104,500	104,500	53,290	51,210
Information Technology				
Personal services	642,630	640,475	725,027	(84,552)
Other operating expenditures	1,314,264	1,314,264	1,034,081	280,183
Budget Administration				
Personal services	-	-	13,360	(13,360)
Other operating expenditures	-	-	-	-
Department of Human Resources				
Personal services	366,984	366,984	426,982	(59,998)
Other operating expenditures	56,450	56,450	53,083	3,367
Call Center				
Personal services	159,860	157,704	193,602	(35,898)
Other operating expenditures	2,900	5,908	5,683	225
Department of Law				
Personal services	339,656	339,656	382,190	(42,534)
Other operating expenditures	445,100	445,100	394,434	50,666
TOTAL GENERAL GOVERNMENT	6,582,404	6,573,822	6,497,976	75,846

CITY OF READING

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

Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
PUBLIC WORKS				
Department of Public Works:				
Fleet Management				
Personal services	490,879	490,879	557,016	(66,137)
Other operating expenditures	879,343	874,043	892,855	(18,812)
Traffic Engineering				
Personal services	76,945	8,039	52,754	(44,715)
Other operating expenditures	317,750	317,000	325,275	(8,275)
Public Works Administration				
Personal services	162,425	162,425	187,417	(24,992)
Other operating expenditures	261,200	261,200	260,918	282
Engineering				
Personal services	83,441	83,441	125,967	(42,526)
Other operating expenditures	2,100	7,400	6,278	1,122
Streets				
Personal services	489,885	558,791	505,473	53,318
Other operating expenditures	107,800	108,550	123,485	(14,935)
Parks				
Personal services	727,665	727,665	888,326	(160,661)
Other operating expenditures	131,500	131,500	80,876	50,624
Recreation				
Personal services	346,526	346,526	435,199	(88,673)
Other operating expenditures	70,320	70,320	53,919	16,401
Public Property				
Personal services	481,773	481,774	544,698	(62,924)
Other operating expenditures	1,467,000	1,467,000	1,418,396	48,604
TOTAL PUBLIC WORKS	6,096,552	6,096,553	6,458,852	(362,299)
PUBLIC SAFETY				
Police - Criminal Investigation				
Personal services	3,725,111	3,720,111	4,377,811	(657,700)
Other operating expenditures	107,800	107,800	50,737	57,063
Police - Special Services				
Personal services	2,436,605	2,436,605	2,390,439	46,166
Other operating expenditures	238,560	264,635	190,755	73,880
Police - Patrol				
Personal services	14,938,169	14,938,169	16,380,130	(1,441,961)
Other operating expenditures	395,435	369,860	293,840	76,020
Police - Administration				
Personal services	712,686	712,686	862,048	(149,362)
Other operating expenditures	61,175	65,675	41,416	24,259
Fire Administration				
Personal services	658,115	658,115	877,415	(219,300)
Other operating expenditures	118,677	118,677	90,387	28,290
Fire Special Services				
Personal services	403,277	403,277	402,814	463
Other operating expenditures	82,535	82,535	33,783	48,752
Fire Suppression				
Personal services	9,946,907	9,946,907	10,190,269	(243,362)
Other operating expenditures	298,281	298,281	246,339	51,942
Fire EMS				
Personal services	2,656,168	2,656,167	3,090,709	(434,542)
Other operating expenditures	504,065	504,065	312,695	191,370
TOTAL PUBLIC SAFETY	37,283,566	37,283,565	39,831,587	(2,548,022)

CITY OF READING

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

Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
COMMUNITY DEVELOPMENT				
Planning				
Personal services	73,004	73,004	76,848	(3,844)
Other operating expenditures	5,700	3,700	22,127	(18,427)
Administration				
Personal services	8,039	8,039	29,221	(21,182)
Other operating expenditures	60	9,827	9,703	124
Zoning				
Personal services	10,777	10,777	18,304	(7,527)
Other operating expenditures	39,800	32,033	23,498	8,535
Trades				
Personal services	282,722	279,222	313,342	(34,120)
Other operating expenditures	24,500	28,000	14,390	13,610
Codes				
Personal services	1,810,246	1,813,605	1,863,299	(49,694)
Other operating expenditures	205,850	202,490	111,658	90,832
TOTAL COMMUNITY DEVELOPMENT	2,460,698	2,460,697	2,482,390	(21,693)
CULTURE AND RECREATION				
Library				
Personal services	751,915	751,915	903,627	(151,712)
Other operating expenditures	225,000	225,000	100,258	124,742
TOTAL CULTURE AND RECREATION	976,915	976,915	1,003,885	(26,970)
DEBT SERVICE				
Principal	2,041,004	2,041,004	2,091,776	(50,772)
Interest	6,214,004	6,214,004	6,824,258	(610,254)
TOTAL DEBT SERVICE	8,255,008	8,255,008	8,916,034	(661,026)
NONDEPARTMENTAL				
Payroll and benefits	960,044	960,044	721,509	238,535
Other	(22,728)	(29,229)	912,866	(942,095)
TOTAL NONDEPARTMENTAL	937,316	930,815	1,634,375	(703,560)
TOTAL EXPENDITURES	62,592,459	62,577,375	66,825,099	(4,247,724)
OTHER FINANCING USES				
Transfers to component unit	-	-	30,000	(30,000)
Transfers to other funds	1,827,435	1,827,435	1,702,435	125,000
TOTAL OTHER FINANCING USES	1,827,435	1,827,435	1,732,435	95,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 64,419,894</u>	<u>\$ 64,404,810</u>	<u>\$ 68,557,534</u>	<u>\$ (4,152,724)</u>

CITY OF READING

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2010

	Debt Service	Liquid Fuels Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 4,463	\$ 1,844,596	\$ 1,849,059
Investments	572	-	572
Accounts receivable	-	-	-
Interfund receivables	158,658	(73,246)	85,412
Note receivable - noncurrent	2,271,429	-	2,271,429
TOTAL ASSETS	<u>\$ 2,435,122</u>	<u>\$ 1,771,350</u>	<u>\$ 4,206,472</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ -	\$ 152,925	\$ 152,925
Interfund payables	-	810,103	810,103
Deferred revenue	2,271,429	-	2,271,429
TOTAL LIABILITIES	2,271,429	963,028	3,234,457
FUND BALANCES			
Reserve for debt service	163,693	-	163,693
Unreserved	-	808,322	808,322
TOTAL FUND BALANCES	<u>163,693</u>	<u>808,322</u>	<u>972,015</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,435,122</u>	<u>\$ 1,771,350</u>	<u>\$ 4,206,472</u>

CITY OF READING

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

Year Ended December 31, 2010

	Debt Service	Liquid Fuels Fund	Totals
REVENUES			
Intergovernmental	\$ -	\$ 1,299,357	\$ 1,299,357
Interest and rent	-	6,489	6,489
TOTAL REVENUES	-	1,305,846	1,305,846
EXPENDITURES			
Public works - highways and streets	-	1,199,491	1,199,491
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	106,355	106,355
OTHER FINANCING USES			
Operating transfers out	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	106,355	106,355
FUND BALANCES, BEGINNING OF YEAR	163,693	701,967	865,660
FUND BALANCES, END OF YEAR	<u>\$ 163,693</u>	<u>\$ 808,322</u>	<u>\$ 972,015</u>

CITY OF READING

COMBINING BALANCE SHEET - ALL CAPITAL PROJECTS FUNDS

December 31, 2010

	<u>Capital Reserve Fund</u>	<u>Line of Credit Fund</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 4,607,473	\$ 4,607,473
Interfund receivable	-	166,000	166,000
	<u>-</u>	<u>4,773,473</u>	<u>4,773,473</u>
TOTAL ASSETS	\$ -	\$ 4,773,473	\$ 4,773,473
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 2,463,934	\$ 2,463,934
Interfund payable	-	462,805	462,805
	<u>-</u>	<u>1,846,734</u>	<u>1,846,734</u>
FUND BALANCES			
Reserve for capital projects	-	1,846,734	1,846,734
	<u>-</u>	<u>1,846,734</u>	<u>1,846,734</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 4,773,473	\$ 4,773,473

CITY OF READING

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

Year Ended December 31, 2010

	<u>Capital Reserve Fund</u>	<u>Line of Credit Fund</u>	<u>Totals</u>
REVENUES			
Interest and rent	\$ -	\$ 6,815	\$ 6,815
EXPENDITURES			
Capital outlays	-	6,508,762	6,508,762
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(6,501,947)	(6,501,947)
OTHER FINANCING SOURCES (USES)			
Operating transfers in/out	(9,225,724)	-	(9,225,724)
EXCESS (DEFICIENCY) OF REVENUES AND FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(9,225,724)	(6,501,947)	(15,727,671)
FUND BALANCES, BEGINNING OF YEAR	9,225,724	8,348,681	17,574,405
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ 1,846,734</u>	<u>\$ 1,846,734</u>

CITY OF READING

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2010

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Fiduciary Funds
ASSETS				
Cash and cash equivalents	\$ 8,048,856	\$ 4,310,004	\$ 2,664,268	\$ 15,023,128
Investments	70,547,615	39,603,775	46,773,294	156,924,684
Interfund receivable	441,255	201,583	138,890	781,728
TOTAL ASSETS	79,037,726	44,115,362	49,576,452	<u>\$ 172,729,540</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	100,856	20,118	148,770	\$ 269,744
Interfund payable	-	-	-	-
TOTAL LIABILITIES	100,856	20,118	148,770	269,744
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 78,936,870</u>	<u>\$ 44,095,244</u>	<u>\$ 49,427,682</u>	172,459,796
TOTAL NET ASSETS AND LIABILITIES				<u>\$ 172,729,540</u>

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2010

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Fiduciary Funds
ADDITIONS				
Contributions				
Member, city and state contributions	\$ 5,142,182	\$ 2,064,795	\$ 2,220,680	\$ 9,427,657
Investment income				
Interest and dividends	2,711,120	811,745	1,151	3,524,016
Realized and unrealized gain on sale of investments	<u>5,741,523</u>	<u>4,207,978</u>	<u>5,800,279</u>	<u>15,749,780</u>
TOTAL ADDITIONS	13,594,825	7,084,518	8,022,110	28,701,453
DEDUCTIONS				
Benefits, including tax withheld	7,910,969	3,145,726	4,068,283	15,124,978
Administrative expenses	403,962	168,053	328,356	900,371
Refunds paid	<u>75,204</u>	<u>465</u>	<u>140,366</u>	<u>216,035</u>
TOTAL DEDUCTIONS	<u>8,390,135</u>	<u>3,314,244</u>	<u>4,537,005</u>	<u>16,241,384</u>
NET INCREASE	5,204,690	3,770,274	3,485,105	12,460,069
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR				
	<u>73,732,180</u>	<u>40,324,970</u>	<u>45,942,577</u>	<u>159,999,727</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR				
	<u>\$ 78,936,870</u>	<u>\$ 44,095,244</u>	<u>\$ 49,427,682</u>	<u>\$ 172,459,796</u>

CITY OF READING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2010

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	01/01/08-12/31/08	B08MC4-20013
CDBG	D	14.218	01/01/09-12/31/09	B09MC4-20013
CDBG	D	14.218	01/01/10-12/31/10	B10MC4-20013
CDBG - Section 108 Loan	D	14.218		B06MC4-20013
CDBG - R (ARRA)	D	14.253	06/04/09-09/30/12	B09MY4-20013
Entitlement Grant Cluster Subtotal				
ESG	D	14.231		S08MC4-20006
ESG	D	14.231		S09MC4-20006
ESG	D	14.231		S10MC4-20006
HPRP (ARRA)	D	14.257		S09MY4-20006
HOME Program	D	14.239		M94MC420204
HOME Program	D	14.239		M05MC420204
HOME Program	D	14.239		M06MC420204
HOME Program	D	14.239		M07MC420204
HOME Program	D	14.239		M08MC420204
HOME Program	D	14.239		M09MC420204
HOME Program	D	14.239		M10MC420204
Neighborhood Stabilization Program 2 (ARRA)	D	14.256	02/11/10-02/11/13	B09CNPA0014
Fair Housing	D	14.401	10/01/07-09/30/08	FF203K083012
Fair Housing	D	14.401	10/01/08-09/30/09	FF203K093012
TOTAL U.S. DEPARTMENT OF HOUSING				
U.S. DEPARTMENT OF JUSTICE				
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
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/08-09/30/12	2009-DJ-BX-1229
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/09-09/30/13	2010-DJ-BX-1229
Bulletproof Vest Partnership	D	16.607	01/01/08-12/31/08	2008
Bulletproof Vest Partnership	D	16.607	01/01/09-12/31/09	2009
Bulletproof Vest Partnership	D	16.607	01/01/10-12/31/10	2010
SRO GREAT Program	D	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
FY 2009 Recovery Act Justice Assistance Grant Program (ARRA)	D	16.804	03/01/09-02/28/13	2009-SB-B9-2498
COPS Hiring Recovery Program (ARRA)	D	16.710	07/01/09-06/30/12	2009RKWX0716
PCCD Pass Through (ARRA)				
Reading Weed and Seed Federal Award #2007-JG-01-21612	I	16.738	07/01/10-06/30/11	2007-JG-01-21612
Reading Weed and Seed Daytime Curfew Project Federal Award #2009-JG-01-22087	I	16.738	01/01/11-12/31/11	2009-JG-01-22087
Reading Weed and Seed Federal Award #2009-SU-B9-0014	I	16.803	07/01/10-06/30/11	2009-AJ-03-21581
Reading Weed and Seed Federal Award #2009-SU-B9-0014	I	16.803	07/01/09-06/30/10	2009-AJ-03-20621
Police Domestic Violence Prevention Program Federal Award #2009-EF-S6-0037	I	16.588	01/01/10-04/30-11	2009-AS-03/05-20454
TOTAL U.S. DEPARTMENT OF JUSTICE				
U.S. DEPARTMENT OF DEFENSE				
Office of Economic Adjustment	D	12-607	06/01/08-03/31/10	CL0613-08-02
TOTAL U.S. DEPARTMENT OF DEFENSE				
U.S. DEPARTMENT OF ENERGY				
Energy Efficiency and Conservation Block Grant (ARRA)	D	81.128	08/04/09-08/03/12	DE-SC0001250
TOTAL U.S. DEPARTMENT OF ENERGY				
U.S. DEPARTMENT OF THE INTERIOR				
Passed through the Pa Historical and Museum Commission				
Historic Preservation Fund Grants-in-Aid	I	15.904	08/01/09-07/31/10	42-09-21844
Historic Preservation Fund Grants-in-Aid	I	15.904	08/01/10-07/31/11	42-10-21945
TOTAL U.S. DEPARTMENT OF THE INTERIOR				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Community Services Block Grant	I	93.569	01/01/10-12/31/10	C000047436
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
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	10/01/07-09/30/08	EECCN080035
TOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
TOTAL FEDERAL AWARDS				

** - Additional \$90,000 added to PY Accounts Receivable
Source Codes - I = Indirect; D = Direct

Total Award	Accrued (Deferred) 12/31/09	Amount Received	Revenue Recognized	Expenditures	Accrued (Deferred) 12/31/10
\$ 3,050,743	\$ 20,423	\$ 1,127,995	\$ 1,107,572	\$ 1,107,572	\$ -
3,098,764	-	2,634,558	3,098,764	3,098,764	464,206
3,360,585	-	-	964,829	964,829	964,829
550,000	-	550,000	550,000	550,000	-
828,217	-	476,269	494,020	494,020	17,751
	20,423	4,788,822	6,215,185	6,215,185	1,446,786
136,792	13,729	13,729	-	-	-
135,829	8,425	70,898	127,404	127,404	64,931
135,899	-	-	28,670	28,670	28,670
1,267,021	97,623	343,258	290,274	290,274	44,639
674,000	-	77,516	77,516	77,516	-
1,059,048	27,971	27,971	-	-	-
999,170	283,693	283,693	-	-	-
992,956	49,994	27,388	-	-	22,606
962,215	(119,110) **	519,565	962,215	962,215	323,540
1,071,352	-	448,087	207,592	207,592	(240,495)
967,214	-	-	-	-	-
5,000,000	-	1,479,504	1,912,630	1,912,630	433,126
136,728	-	136,728	136,728	136,728	-
87,140	-	8,500	8,500	8,500	-
	382,748	8,225,659	9,966,714	9,966,714	2,123,803
-	44,681	117,996	73,315	73,315	-
87,324	37,324	37,324	-	-	-
43,212	30,185	42,397	12,212	12,212	-
134,365	-	16,706	16,706	16,706	-
121,998	-	-	12,346	12,346	12,346
19,538	19,064	19,064	-	-	-
15,630	10,094	10,094	-	-	-
5,072	-	5,072	5,072	5,072	-
73,483	32,992	32,992	-	-	-
1,169,125	477,486	576,385	106,263	106,263	7,364
607,945	32,462	120,862	88,400	88,400	-
640,806	31,580	124,957	163,871	163,871	70,494
1,000,100	-	230,874	307,832	307,832	76,958
74,480	-	1,770	11,335	11,335	9,565
50,000	-	-	-	-	-
80,000	-	20,000	40,000	40,000	20,000
80,000	20,000	78,070	58,070	58,070	-
93,577	-	82,667	100,002	100,002	17,335
	735,868	1,517,230	995,424	995,424	214,062
120,000	98,385	95,000	21,615	21,615	25,000
	98,385	95,000	21,615	21,615	25,000
791,000	-	-	32,200	32,200	32,200
	-	-	32,200	32,200	32,200
14,520	-	14,520	14,520	14,520	-
15,000	-	-	1,629	1,629	1,629
	-	14,520	16,149	16,149	1,629
80,000	-	80,000	80,000	80,000	-
	-	80,000	80,000	80,000	-
105,200	6,958	6,958	-	-	-
27,370	-	5,092	5,092	5,092	-
	6,958	12,050	5,092	5,092	-
	<u>\$ 1,223,959</u>	<u>\$ 9,944,459</u>	<u>\$ 11,117,194</u>	<u>\$ 11,117,194</u>	<u>\$ 2,396,694</u>

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2010

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	\$ 270,268
Emergency Shelter Grant (ESG)	14.231	152,789
HOME Program	14.239	1,030,754
Homeless Prevention and Rapid Re-Housing Program	14.257	254,774



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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, 2010, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated September 12, 2011. The report on the business type activities and the major water and sewer fund balance was qualified because the City was unable to provide records that reflect accounts receivable balances due by customer for water and sewer operations. Except as discussed in the preceding sentence, 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. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 10-1 through 10-7 and 10-9 through 10-13 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 10-8 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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 questioned costs as items 10-3, 10-4, 10-11, and 10-12.

We also noted certain other matters that we reported to management of the City of Reading in a separate letter dated September 12, 2011.

The City of Reading's response to the findings 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, 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
September 12, 2011**



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Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on
Each Major Program and on 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 City of Reading's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Reading's major federal programs for the year ended December 31, 2010. 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.

As described in items 10-1, 10-5, 10-9, 10-14 and 10-15 in the accompanying schedule of findings and questioned costs, the City of Reading did not comply with requirements regarding allowable costs, cash management, availability of federal funds and reporting requirements that are applicable to Community Development Block Grant, Home Investment Partnership Program and the Neighborhood Stabilization Program. Compliance with such requirements is necessary, in our opinion, for the City of Reading to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Reading complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The results of our auditing procedures also disclosed other 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 10-16.

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Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program with not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-1, 10-5, 10-9, 10-14 and 10-15 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-16 to be a significant deficiency.

The City of Reading's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Reading's responses and, accordingly, we express no opinion on the responses.

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
September 12, 2011

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: qualified
Internal control over financial reporting:
Material weakness(es) identified? X yes no
Significant deficiency(s) identified not considered to be material weaknesses? X yes 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? X yes none reported
Type of auditor's report issued on compliance for major programs: qualified for all major programs
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>
	Entitlement Grant Cluster:
14.218	Community Development Block Grant/Entitlement Grant
14.253	Community Development Block Grant ARRA Entitlement Grant
14.239	Home Investment Partnerships Program
14.256	Neighborhood Stabilization Program 2 (ARRA)
16.710	Public Safety Partnership and Community Policing Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$333,516

Auditee qualified as low-risk auditee? yes X no

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

Section II - Financial Statement Findings

10-1 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 other accounts 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. Policies and procedures should be adopted setting up deadlines for reconciliation and review and oversight responsibilities.

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.

10-2 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

Criteria

The process for the City to disburse funds includes an accounts payable request form that is required 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 steps in the control 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 which allows for the City to be more susceptible to misappropriation of assets.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

10-2 CASH DISBURSEMENTS - SEGREGATION OF DUTIES - CONTINUED

Recommendation

We recommend that the policies and procedures be reviewed and streamlined to allow for the proper approval of purchases and related invoices as well as their timely payment. The City has an electronic purchase order process which allows for more timely approval and payment of expenditures. Through better use of the purchase order process, payments would be more timely while having the proper authorizations. Policies and procedures established need to be communicated and enforced once defined.

Benefit

The City will enhance its controls over disbursements while improving the timeliness of its payments to vendors.

Management Response

See corrective action plan included in this report package.

10-3 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 subsidy 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. This turnover has not allowed any individual to gain comfort with the requirements of the Form AG-385 plus there is no supervision or review of the reporting process.

Effect

The City received state funding for pension obligations based on improper wages reported on the Form AG-385. The wages reported on the form were in excess of actual wages therefore causing the City to be over-funded by the state. There were also individuals listed on the form who were ineligible for subsidy consideration.

Recommendation

The preparation of the AG-385 and MMO 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. In all cases, work performed should be supervised and reviewed.

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.

10-4 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.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

10-4 PENSION COMPLIANCE - CONTINUED

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 for third class cities. As a result, the pension subsidy from the state covers a smaller portion of the pension obligation since it will not factor the excess benefits into its calculation. This ultimately results in higher costs to the City.

Recommendation

State code for third class cities 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.

10-5 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

Criteria

Statement of Auditing Standards (SAS) No. 115 indicates that the "Identification by the audit or of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition/Cause

Material audit adjustments were proposed during the audit, and recorded to properly reflect material accounts on the financial statement. Due to a turnover in key financial management positions, many of the reconciliation procedures for key balance sheet accounts were not being performed timely and accurately.

Effect

As a result of the reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year end.

Recommendation

The accounting department should review its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task. We also recommend reviewing the job description and responsibility of positions within the finance department to allow for the most efficient flow of information to be obtained.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

**10-5 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT
- CONTINUED**

Benefit

Management and Council are able to have confidence in the support they are using during the decision making process.

Management Response

See corrective action plan included in this report package.

10-6 TIME CARD APPROVAL

Criteria

The City's internal control procedures for hourly employee payroll state that the employee, time keeper and department head should sign off time cards to ensure accuracy and approval of the hours worked.

Condition/Cause

During our testing of payroll we found several instances of unsigned and unapproved time cards. It was determined that the hours were properly allocated based on the time cards; however, a lack of supervisory approval was noted.

Effect

Lack of supervisory approval can allow errors in the time charged or allocated among divisions to pass undetected and lead to possible misappropriation of funds.

Recommendation

We recommend that all time cards at the City be signed by the employee, and approved by department head as stated in the City's payroll policy. We also recommend that either the timekeeper or payroll clerk monitor this activity to ensure that it is occurring timely.

Benefit

Proper hours worked would be paid and captured into the general ledger. This would also add another safeguard against possible misappropriation of expenses and clerical errors.

Management Response

See corrective action plan.

10-7 FINANCIAL REPORTING TO MANAGEMENT

Criteria

In order to effectively manage the finances of the City, it is important for management to obtain timely, accurate and meaningful financial information from the finance department. This information should accurately portray the financial picture of the city's major funds compared to budget or other meaningful benchmarks and be distributed to senior management as well as City Council timely.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

10-7 FINANCIAL REPORTING TO MANAGEMENT - CONTINUED

Condition/Cause

Currently, the information being disseminated to City Council and senior management is not sufficient nor accurate. The financial information is not presented in a meaningful format showing the true cost of operations compared to budget in proper detail. It was also noted that City Council and senior management was receiving limited financial information throughout the 2010 fiscal year and that material balance sheet accounts were not being reconciled timely to ensure information being reported was accurate.

Effect

Without timely, accurate and meaningful financial information, City Council and senior management will not be able to properly monitor the City's true financial condition and create proper policy in relation to those conditions.

Recommendation

We recommend the finance department revisit the information that is being distributed to senior management and City Council to ensure that accurate, timely and meaningful information is being presented. Information presented should show results of operations as well as other sources and uses of funds such as transfers and debt proceeds. We also recommend a comparison of budget to actual costs be presented to allow City Council and senior management a better understanding of the true financial position of the City. Along with the enhanced reporting, we also stress the importance of timely and accurate reconciliation of material balance sheet accounts to allow for accurate financial information.

Benefit

In being better informed as to the City's ongoing financial condition, management and City Council can be proactive in responding to financial concerns. The information will also allow senior management to better monitor the operations of the City.

Management Response

See corrective action plan included in this report package.

10-8 COMPENSATED ABSENCE LIABILITY

Criteria

Applicable auditing and accounting standards require the measurement of annual compensated absences in order to accurately report the related liability and expenses.

Condition/Cause

During the course of our review of the year-end compensated absence accrual, it came to our attention that there is an inconsistency between the time earned by the employees and the hours accrued in the payroll system for the liability. An update to the payroll system occurred in the third quarter of the year and is not allowing for the proper tracking of compensation time.

Effect

Management is not able to accurately produce a report detailing the compensated absences outstanding to its employees as of December 31, 2010.

Recommendation

We recommend management track this information in each department separate from the payroll system until all issues have been resolved. This will allow for a more accurate reporting of the related liability, plus help ensure employees are appropriately paid any compensated absences due upon resignation or retirement.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

10-8 COMPENSATED ABSENCE LIABILITY

Benefit

By properly tracking this liability, the City will be able to accurately pay time accrued to employees that are retiring as well as monitor the compensation time being accumulated by each individual for irregularities.

Management Response

See corrective action plan included in this report package.

10-9 PURCHASING CARD PROCEDURES

Criteria

Proper segregation of duties should be maintained for key areas to ensure the proper review and approval of transactions is occurring.

Condition/Cause

During our procedures, we noted that the purchasing cards that are in possession of certain department directors were only being approved by the same director before payment. No monitoring review was being performed at the upper management level to ensure only allowable costs were being charged. Due to turnover in key management positions, this monitoring activity was not taking place.

Effect

Without the proper segregation of duties and independent approval, misappropriation of assets may occur without being detected.

Recommendation

We recommend the director of finance review the purchasing card transactions monthly for unusual items or excessive use.

Benefit

By implementing a stronger internal control process over the purchasing card transactions, the City will be able to mitigate the opportunity for misappropriation to occur..

Management Response

See corrective action plan included in this report package.

10-10 BILLING - REVENUE/ACCOUNTS RECEIVABLE FOR WATER AND SEWER

Criteria

After proprietary billings take place, bill monitoring should occur monthly to support the amount outstanding and a determination made as to an allowance for uncollectible accounts.

Condition/Cause

Our audit procedures disclosed inadequate support of the accounts receivable balance for water and sewer operations as of the balance sheet date. The accounts receivable report is a real time report and therefore must be run at month end to be accurate. The report was not being generated throughout the year and therefore no detail was available for examination at year-end. In addition, there was no evidence that anyone was monitoring the report information, delinquencies and need for allowance for uncollectible accounts.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

10-10 BILLING - REVENUE/ACCOUNTS RECEIVABLE FOR WATER AND SEWER - CONTINUED

Effect

Management is not able to provide sufficient support for the receivable outstanding at year end or accurately estimate the allowance for uncollectible accounts.

Recommendation

We recommend that the outstanding bill report is generated at the close of each month and reconciled to the general ledger to accurately reflect the revenues and receivables for the period. At the same time, past due accounts should be analyzed for collectability with appropriate collection efforts undertaken.

Benefit

The City will be able to make an accurate determination of uncollectible accounts as well as enhance collection efforts and improve cash flow.

Management Response

See corrective action plan included in this report package.

10-11 MICRO LOAN PROGRAM APPROVAL

Criteria

The community development office initiated a micro loan program in August 2010. The program allows for loans of \$1,000 to \$35,000 to small business owners in the City at a fixed rate of 3% for five to ten year terms. The loans can be used for equipment, working capital, renovations and repairs, marketing and adding jobs.

Condition/Cause

In October 2010, a transfer from the E-Z Fred account of \$550,000 was made to a bank account in the name of a third party to fund this program. There is no signed contract for services that the third party is providing to the City nor was there any note of approval by City Council of the creation of the program or the related transfer of funds.

Effect

Although a contract was obtained that noted monitoring procedures in place, the agreement was not signed and the money is not in control of the City.

Recommendation

We recommend that the City re-evaluate the policies in place for employees of the City to contract with a third party in the name of the City without Council approval. We also recommend that a signed agreement be obtained regarding the program and the third party consultant.

Benefit

By having the proper policies in place, Council will be aware of any contracts the City is obligated to in the future. We also believe that a signed agreement adds a level of assurance as to the procedures involved in the micro loan program.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

10-12 MONITORING - STATE GRANTS

Criteria

Over the past year there has been an increase in state grants received by the City and passed-through to other agencies within the City. The grants are being generated through the City and the Reading Redevelopment Authority, which is a component unit of the City. Each grant notes that the recipients are responsible for managing and monitoring each project's activity supported by the award. In addition, the agreement requires the monitoring of compliance by a subgrantee or subrecipient.

Condition/Cause

It was noted in our procedures that certain grant funds were received by the City and passed-through to the subrecipients without the proper documentation for expenses and other reports being received. In addition, the actual award and its related expenditures were not recorded on the City's general ledger. The City also is not maintaining an accurate listing of all state awards that have been applied for and the status of these awards.

Effect

The City is ultimately responsible for the proper reporting and usage of the grant monies received from the state. Any money that is spent on in-eligible activities by the City or a subrecipient will need to be refunded to the state.

Recommendation

We recommend that the City re-evaluate its procedures for handling state grants to allow for proper documentation of the award and related expenditures. Procedures should include verifying allowability of costs and monitoring subrecipients. We also recommend that a listing of awards applied for and received be maintained to allow the City to monitor grant status. With the involvement of the Reading Redevelopment Authority, it is also important for open communication to take place between the City grants coordinator and the Authority.

Benefit

By implementing these policies, the city will be able to better safeguard its assets as well as monitor the activity of subrecipients and mitigate its exposure for unallowable activity.

Management Response

See corrective action plan included in this report package

10-13 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Criteria

OMB Circular A-133, Section 310(b) requires the auditee to prepare a complete and accurate SEFA.

Condition/Cause

The City does not prepare a SEFA containing all required information. The City provided information related to the federal programs including agreements and other supporting documentation; however, the SEFA was prepared by the auditor. In addition, certain federal awards were not identified at all.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

**10-13 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) -
CONTINUED**

Effect

No schedule was maintained noting the awards received, expenses incurred and receivables due at year-end. Third parties were contracted to provide oversight on passed-through grants, but oversight and monitoring by the City were missing. In addition, any department that receives a grant should work closely with the accounting department in order to ensure that proper recording of the award and draw down steps are followed. In addition, management should implement internal control procedures to minimize the time elapsing between receipt of grant funds and the related disbursements.

Recommendation

In order to be aware of all compliance requirements from the A-133 Compliance Supplement and prepare a complete and accurate SEFA, management should have an awareness of CFDA numbers and Clusters.

Benefit

The City will be able to better identify all federal awards and related compliance requirements plus improve cash management practices.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

Section III - Federal Award Findings and Questioned Costs

- 10-1 Modified Accrual/Full Accrual Finding is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013 and B10MC420013; CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204.
- 10-5 Account Reconciliations/Material Adjustments Posted as a Result of Audit is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013 and B10MC420013; CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204.
- 10-9 Purchasing Card Procedures Finding is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013 and B10MC420013

10-14 GRANT RECEIPTS

Federal Program:

Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013 and B10MC420013; CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204.

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 appropriate funds and report program income.

Condition/Cause

There continues to be a need for improvement in communication between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity. During our procedures, we observed that no reconciliation of actual expenses paid on the general ledger to the IDIS draw downs was performed. This resulted in delayed time for draw downs to be completed.

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.

Questioned Costs

None

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

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 and that all expenditures are correctly accounted for in the project accounting portion of the general ledger to allow for completeness of the draw downs related to expenses incurred. We suggest additional training on the general ledger software for the CD Fiscal Officer to allow him to become more comfortable with the system to run the reports necessary to monitor the general ledger accounts. We also suggest that no less than quarterly, the fiscal officer performs a reconciliation to the project accounting reports to ensure that all expenses are properly reflected and drawn down.

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.

10-15 ALLOWABLE COSTS - INADEQUATE DOCUMENTATION FOR ADMINISTRATIVE EXPENSES

Federal Program – Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013 and B10MC420013

Criteria

The OMB Circular A87 attachment B and Title 24 C.F.R. Subpart C establishes a listing of eligible administrative costs that are allowed to be charged to the federal program.

Condition/Cause

In our procedures performed on the administrative expenses charged to the above program, we noted several instances with inadequate documentation to confirm the expense was necessary and reasonable to the administration of the program. We also noted instances where administrative expenses charged to the program were unallowable such as donations and entertainment. All of the above charges were done through purchasing card transactions.

Questioned Cost - \$15,257

Recommendation

We recommend that the City establishes effective internal controls to monitor this area plus have appropriate personnel maintain a listing of allowable costs under the federal regulations noted above and review all administrative costs charged to the program against these listings. This will mitigate the opportunity for unallowable costs to be charged to the program. Additionally, training on unallowable costs should be held.

Benefit

The City would limit its exposure of being non-compliant with program requirements.

Management Response

See corrective action plan.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

10-16 REPORTING - QUARTERLY PERFORMANCE REPORTS NOT FILED TIMELY

Federal Program - Neighborhood Stabilization Program 2

Criteria

Under the program guidance for the Neighborhood Stabilization Program 2, quarterly performance reports are to be filed within 30 days of the quarter end.

Condition/Cause

It was noted that the quarterly reports for the first, second and third quarter were submitted late. It was noted that the system for the reports was not operating properly, which caused some delays. Each of the reports for the above quarters were reviewed and approved by the applicable federal agency.

Effect - The City could be in non-compliance with the terms of the Neighborhood Stabilization Program 2 requirements.

Questioned Costs

None

Recommendation

We recommend the Director of Community Development review the quarterly reports before they are submitted to ensure they are accurate and performed timely.

Benefit

The City would be in compliance with program requirements.

Management Response

See corrective action plan.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2010

09-2 Grant Receipt Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contracts BO9MC420013 and BO8MC420013.

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 2009 there was a turn over in staff within the Community Development Department and Finance Department. During the summer of 2009, our IDIS system was updated and, there was a problem getting these individuals set up in the IDIS system, thus causing a two month delay in drawing down HUD funds. The policy and procedures put in place are following by the CD fiscal officer. The CD Fiscal officer does bi-monthly reconciliations between the IDIS system and the City's general ledger. Without any further problems with the IDIS system and no changes in staff, we do not anticipate this to be a finding in the future.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 10-14.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2010

09-3 Cash Disbursements - Segregation of Duties Finding is also a Federal Award Finding which related to CDBG 14.218 program Contracts BO8MC420013 and BO9MC420013 and HOME Program 14.239 Contracts M05MC420204, M06MC420204, and M07MC420204.

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

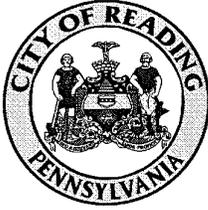
The City will enhance the control structure and reduce the risk of misappropriation of assets.

Management Response

The Finance Department is currently updating the policy and procedures for approving payment of invoices to allow for better controls in processing payments in a timelier manner. Furthermore, all documents are reviewed by our internal auditor and his assistant however their signature is absent from the form.

Current Status of Corrective Action Plan

This finding is no longer valid for the federal programs tested in the current year.



CITY OF READING, PENNSYLVANIA

815 WASHINGTON STREET
READING, PA 19601-3690

CORRECTIVE ACTION PLAN

December 31, 2010

U.S. Department of Housing:

The City of Reading respectfully submits the following corrective action plan for the year ended December 31, 2010.

Name and address of independent public accounting firm: Herbein + Company, Inc.,
2763 Century Boulevard, Reading, PA 19610

Audit period: December 31, 2010

The findings from the December 31, 2010 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

10-1 MODIFIED ACCRUAL/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 generally accepted accounting principles.

Recommendation

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

Management Response

The Administrative Services Department (formerly know as the Finance Department) has hired new staff: Director of Administrative Services, City Controller and Accounting Manager as of December 2010. The new members of the department have accounts reconciled as of June 2011. Starting in 2011 the City's accounting practices will be in compliance with generally accepted accounting principles.

10-2 CASH DISBURSEMENTS-SEGREGATION OF DUTIES

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.

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 the timely payment of invoices.

Management Response

As of December 2010, a City Controller was added to the Administrative Services Department. A new procedure has been put into place where the Controller and Purchasing Coordinator sign off on all Accounts Payables and Purchase Orders. The Director of Administrative Services signs off on Accounts Payables and Purchase Orders over \$4,000 and the Managing Director signs off on Accounts Payables and Purchase Orders over \$10,000. Each Department Director must sign off on all of their Accounts Payables and Purchase Orders.

10-3 PENSION REPORTING

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.

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.

Management Response

The Pension Office has a new Pension Coordinator and she meets on a weekly basis with the Administrative Services Director. The preparation of the AG385 for 2010 involved the Pension Coordinator, City Auditor, Controller, Accounting Manager, Administrative Services Director and his Confidential Secretary. Staff expects the 2010 filing to be error free.

10-4 PENSION COMPLIANCE

Condition/Cause

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

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.

Management Response

The Act 47 Recovery Plan is taking an active role in all negotiations which results in negotiating new labor contracts which comply with all applicable state and local laws.

10-5 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

Condition/Cause

Due to a turnover in key financial management positions, many of the reconciliation procedures for key balance sheet accounts were not being performed timely and accurately.

Recommendation

The Accounting Department should review its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task. We also recommend reviewing the job description and responsibility of positions within the Finance Department to allow for the most efficient flow of information to be obtained.

Management Response

The Controller is currently working on a monthly schedule of all accounts that will be reconciled as well as who is responsible for the reconciliation. Since most staff is new, the external auditors prepared the material adjustments. Now the staff knows which adjustments are needed, so staff will make those adjustments each year.

10-6 TIME CARD APPROVAL

Condition/Cause

The City's internal control procedures for hourly employees state that the employee, time keeper and department head should sign off time cards to ensure accuracy and approval of the hours worked.

Recommendation

We recommend that all timecards at the City to be signed by the employee, and approved by the department head as stated in the City's payroll policy. We also recommend that either the timekeeper or the payroll clerk monitor this activity to ensure that it is occurring timely.

Management Response

Management is looking into switching payroll systems and as part of this, electronically collect time and require management to authorize time records. This will replace the need for timesheets. In the mean time, the timekeepers will be periodically reminded that all timesheets should be signed prior to being sent to payroll. The City Auditor will be asked to periodically review time sheets for proper authorization.

10-7 FINANCIAL REPORTING TO MANAGEMENT

Condition/Cause

Currently the information being disseminated to City Council and senior management is not sufficient. The Financial information is not presented in a meaningful format showing the true cost of operations compared to budget. It is also noted that City Council and senior management was receiving limited financial information throughout the 2010 fiscal year.

Recommendation

We recommend the Finance Department revisit the information that is being distributed to senior management and City Council to ensure that accurate, timely and meaningful information is being presented. Information presented should show results of operations as well as other sources and uses of funds such as transfer and debt proceeds. We also recommend a comparison of budget to actual costs be presented to allow City Council and senior management a better understanding of the true financial position of the City.

Management Response

The current administration prepares a Cash Flow Report monthly which includes both actual and budget figures. In addition, there are also reports prepared by staff which track actual versus budget, compares current with prior year for revenue and expenses. All of the above reports are presented to City Council on a regular basis.

10-8 COMPENSATED ABSENCE LIABILITY

Condition/Cause

During the course of our review of the year-end compensated absence accrual, it came to our attention that there is an inconsistency between the time earned by employees and the hours accrued in the payroll system for the liability. An update to the payroll system occurred in the third quarter of the year and is not allowing for the proper tracking of compensated time.

Recommendation

We recommend management track this information in each department separate from the payroll system until all issues have been resolved. This will allow for a more accurate reporting of the related liability, plus help ensure employees are appropriately paid any compensated absences due upon resignation or retirement.

Management Response

For the first half of 2011, there was a separate system used to track compensated time due to the problems with the payroll system (PDS). However, the problem was worked on jointly by PDS, Information Technology and the Payroll and was corrected in July 2011.

10-9 PURCHASING CARD PROCEDURES

Condition/Cause

During our procedures, we noted that the purchasing cards that are in possession of certain department directors were only being approved by the same director before payment. No monitoring review was being performed at the upper management level to ensure only allowable costs were being charged. Due to turnover in key management positions, this monitoring activity was not taking place.

Recommendation

We recommend the Director of Administrative Services review the purchasing card transactions monthly for unusual items or excessive use.

Management Response

The Managing Director and the Director of Administrative Services will review monthly card statements for propriety.

10-10 BILLING-REVENUE/ACCOUNTS RECEIVABLE FOR WATER AND SEWER

Condition/Cause

Our audit procedures disclosed inadequate support of the accounts receivable balance for water and sewer operations as of the balance sheet date. The accounts receivable report is a real time report and therefore must be run at month end to be accurate. The report was not being generated throughout the year and therefore no detail was available for examination at year end. In addition, there was no evidence that anyone was monitoring the report information, delinquencies and need for allowance for uncollectable accounts.

Recommendation

We recommend that the outstanding bill report is generated at the close of each month and reconciled to the general ledger to accurately reflect the revenues and receivables for the period. At the same time, past due accounts should be analyzed for collectability and appropriate collection efforts are undertaken.

Management Response

As of August 2011, the outstanding bill report is run monthly. Also, the Citizens Service Center has a process in place that will begin collection efforts as soon as an account is considered in arrears.

10-11 MICRO LOAN PROGRAM APPROVAL

Condition/Cause

In October 2010, a transfer from the E-Z Fred account of \$550,000 was made to a bank account in the name of a third party to fund this program. There is no signed contract for services that the third party is providing to the City nor was there any note of approval by City Council of the creation of the program or the related transfer of funds.

Recommendation

We recommend that the City re-evaluate the policies in place for employees of the City to contract with a third party in the name of the City without Council approval. We also recommend that a signed agreement be obtained regarding the program and the third party consultant.

Management Response

All City contracts will be reviewed by the City Solicitor and properly executed.

10-12 MONITORING STATE GRANTS

Condition/Cause

It was noted in our procedures that certain grant funds were received by the City and passed through to the sub recipients without the proper documentation for expenses and other reports being received. In addition, the actual award and its related expenditures were not recorded on the City's general ledger. The City is also not maintaining an accurate listing of all state awards that have been applied for and the status of these awards.

Recommendation

We recommend that the City re-evaluate its procedures for handling state grants to allow for proper documentation of the award and related expenditures. Procedures should include verifying allow ability of costs and monitoring sub recipients. We also recommend that a listing of awards applied for and received be maintained to allow the City to monitor Grant status. With the involvement of Reading Redevelopment Authority, it is also important for open communication to take place between the City grant coordinator and the Authority.

Management Response

The City recently added A Grants Accountant to staff. This Accountant will work closely with the Grants Coordinator to ensure that proper documentation is retained. Staff will prepare and maintain a comprehensive listing of awards. Coordination between Reading Redevelopment Authority and grants staff will be improved.

10-13 PREPERATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Condition/Cause

The City does not prepare a SEFA containing all required information. The City provided information related to the federal programs including agreements and other supporting documentation; however, the SEFA was prepared by the auditor. In addition, certain federal awards were not identified at all.

Recommendation

In order to be aware of all compliance requirements from the A-133 Compliance Supplement and prepare a complete and accurate SEFA, management should have an awareness of CFDA numbers and Clusters.

Management Response

The Grants Accountant will prepare the SEFA schedules as required.

FINDINGS – FEDERAL AWARD PROGRAMS AUDIT

Federal Award Findings and Questioned Costs

10-1 Modifies Accrual/Full Accrual is also a Federal Award Finding which relates to Community Development Block Grant 14.218-Contracts BO8MC420013, BO9MC420013 and B10MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 – Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204 and M09MC420204.

See management’s response to 10-1.

10-5 Account Reconciliations/Material Adjustments Posted as a Result of Audit is also a Federal Award Finding which related to Community Development Block Grant 14.218 – Contracts BO8MC420013, BO9MC420013 and B10MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204 and M09MC420204

See management’s response to 10-5

10-9 Purchasing Card Procedures Finding is also a Federal Award Finding which relates to Community Development Block Grant 14.218 – Contracts BO8MC420013, BO9MC420013 and B10MC420013

See management’s response to 10-9

10-14 GRANT RECEIPTS

Condition/Cause

There continues to be the need for improvement in communication between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity. During our procedures, we observed that no reconciliation of actual expenses paid on the general ledger to the IDIS draw downs was performed. This resulted in delayed time for draw downs to be completed.

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 being drawn down in a timely fashion and that all expenditures are correctly accounted for in the project accounting portion of the general ledger to allow for completeness of the draw downs related to expenses incurred. We suggest additional training on the general ledger software for the CD Fiscal Officer to allow him to become more comfortable with the system to run the reports necessary to monitor the general ledger accounts. We also suggest that no less than quarterly, the Fiscal Officer performs a reconciliation to the project accounting reports to ensure that all expenses are properly reflected and drawn down.

Management Response

The Community Development Fiscal Officer position is to be relocated into the Finance division of Administrative Services. This will provide for more timely draw downs, accurate accounting, proper training and timely reconciliations.

10-15 ALLOWABLE COSTS – INADEQUATE DOCUMENTATION FOR ADMINISTRATIVE EXPENSES

Condition/Cause

In our procedures performed on the administrative expenses charged to the above program (Community Development Block Grant 14.215 – Contracts BO8MC420013, BO9MC420013 and B10MC420013) we noted several instances with inadequate documentation to confirm the expense was necessary and reasonable to the administration of the program. We also noted instances where administrative expenses charged to the program were unallowable such as donations and entertainment. All of the above charges were done through purchasing card transactions.

Recommendation

We recommend that the City establishes effective internal controls to monitor this area plus have appropriate personnel maintain a listing of allowable costs under the federal regulations noted above and review all administrative costs charged to the program against these listings. This will mitigate the opportunity for unallowable costs to be charged to the program. Additionally, training on unallowable costs should be held.

Management Response

The Managing Director and Director of Administrative Services will review and approve all program and administrative costs for propriety.

10-16 REPORTING-QUARTERLY PERFORMANCE REPORTS NOT FILED TIMELY

Condition/Cause

It was noted that the quarterly reports for the first, second and third quarter were submitted late. It was noted that the system for the reports was not operating properly, which caused some delays. Each of the reports for the above quarters were reviewed and approved by the applicable federal agency.

Recommendation

We recommend the Director of Community Development review the quarterly reports before they are submitted to ensure they are accurate and performed timely.

Management Response

The Director of Community Development will review the quarterly reports to ensure accuracy and timeliness.

I would like to thank the efforts of the Controller, Accounting Manager and the Accounting Division who came together to get these tasks completed in a timely fashion.

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

Sincerely,



Carl Geffken
Managing Director