

CITY OF READING, OHIO

Basic Financial Statements

Year Ended December 31, 2006

With

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Members of Council
City of Reading
1000 Market Street
Reading, Ohio 45215

We have reviewed the *Independent Auditors' Report* of the City of Reading, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Reading is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 16, 2008

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CITY OF READING, OHIO

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Reading, Ohio:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and 42 through 44, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 23, 2008

City of Reading, Ohio

Management's Discussion and Analysis For The Year Ended December 31, 2006 (Unaudited)

The City of Reading's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

Financial Highlights

The City's total net assets increased \$1,495,594. Net assets of governmental activities increased \$1,413,474, net assets of business-type activities increased by \$82,120.

- The General Fund reported a net change in fund balance of \$314,889.
- Business-type operations reflected operating income of \$104,287.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Government-wide Financial Statements

The analysis of the City as a whole begins with the Government-wide Financial Statements. These reports provide information that will help the reader to determine if the City of Reading is financially better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes to those assets. This change informs the reader whether the City's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well being. Some of these factors include the City's tax base and the condition of capital assets.

In the Government-wide Financial Statements, the City is divided into two kinds of activities.

- **Governmental Activities** - Most of the City's services are reported here including police, fire, street maintenance, parks and recreation, and general administration. Income taxes, property taxes, intergovernmental revenue, charges for services, and interest finance most of these activities.

Business-Type Activities - These services include water. Service fees for these operations are charged based upon the amount of usage or a usage fee. The intent is that the fees charged recoup operational costs.

Fund Financial Statements

Information about the City's major funds is presented in the Fund Financial Statements. Fund financial statements provide detailed information about the City's major funds - not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City, with approval of council, to help control, manage and report money received for a particular purpose or to show that the City is meeting legal responsibilities for use of grants. The City's major funds are General, Capital Improvement and Water Funds.

Governmental Funds - Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

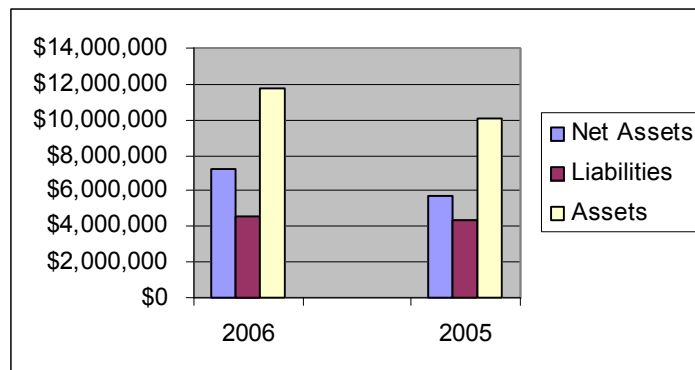
Fiduciary Funds - The City is the fiscal agent for three agency funds. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Statement of Changes in Assets and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current Assets	\$5,859,982	\$4,287,680	\$585,702	\$566,863	\$6,445,684	\$4,854,543
Capital Assets, Net	4,528,450	4,416,950	784,849	811,589	5,313,299	5,228,539
Total Assets	10,388,432	8,704,630	1,370,551	1,378,452	11,758,983	10,083,082
Liabilities						
Long-Term Liabilities	2,325,960	2,477,145	519,527	601,071	2,845,487	3,078,216
Other Liabilities	1,638,275	1,216,762	81,331	89,808	1,719,606	1,306,570
Total Liabilities	3,964,235	3,693,907	600,858	690,879	4,565,093	4,384,786
Net Assets						
Invested in Capital						
Assets Net of Debt	2,936,368	2,592,961	359,807	299,357	3,296,175	2,892,318
Restricted	2,210,696	1,797,188	0	0	2,210,696	1,797,188
Unrestricted	1,277,133	620,574	409,886	388,216	1,687,019	1,008,790
Total Net Assets	\$6,424,197	\$5,010,723	\$769,693	\$687,573	\$7,193,890	\$5,698,296



The City saw an increase in current assets for Governmental Activities mainly due to an increase in income taxes receivable which is mainly due to an increase in the City's income tax from one and an a half percent in 2005 to two percent in 2006. The City also saw an increase in capital assets, net for Governmental Activities from 2005 mainly due to the completion of the Reading Road Streetscape Project. Total Long-Term Liabilities decreased in 2006 as compared to 2005 due to the City making timely payments on its long-term debt obligations. Other Liabilities increased mainly due to the issuance of a \$450,000 real estate acquisition note.

Table 2 shows the changes in net assets at year end and revenue and expense comparisons to 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues:						
Charges for Services	\$1,152,424	\$929,745	\$1,379,872	\$1,423,353	\$2,532,296	\$2,353,098
Operating Grants, Contributions	808,397	691,599	0	0	808,397	691,599
Capital Grants and Contributions	20,074	356,184	0	0	20,074	356,184
Total Program Revenues	1,980,895	1,977,528	1,379,872	1,423,353	3,360,767	3,400,881
General Revenue:						
Income Taxes	5,867,828	4,382,854	0	0	5,867,828	4,382,854
Property Taxes	919,910	455,577	0	0	919,910	455,577
Grants and Entitlements	618,883	649,676	0	0	618,883	649,676
Unrestricted Contributions	0	95	0	0	0	95
Investment Earnings	131,187	86,259	0	0	131,187	86,259
Other	229,711	402,080	0	0	229,711	402,080
Total General Revenues	7,767,519	5,976,541	0	0	7,767,519	5,976,541
Total Revenues	9,748,414	7,954,069	1,379,872	1,423,353	11,128,286	9,377,422
Program Expenses:						
General Government	1,830,621	1,552,600	0	0	1,830,621	1,552,600
Public Safety	4,552,986	4,035,447	0	0	4,552,986	4,035,447
Leisure Time Activities	543,424	545,785	0	0	543,424	545,785
Community Development	165,628	118,219	0	0	165,628	118,219
Basic Utility Service	393,831	385,424	0	0	393,831	385,424
Transportation and Street Repair	759,277	775,116	0	0	759,277	775,116
Public Health and Welfare	10,976	9,636	0	0	10,976	9,636
Interest and Fiscal Charges	78,197	79,273	0	0	78,197	79,273
Water Utility	0	0	1,297,752	1,354,880	1,297,752	1,354,880
Total Program Expenses	8,334,940	7,501,500	1,297,752	1,354,880	9,632,692	8,856,380
Change in Net Assets	1,413,474	452,569	82,120	68,473	1,495,594	521,042
Beginning Net Assets	5,010,723	4,558,154	687,573	619,100	5,698,296	5,177,254
Ending Net Assets	\$6,424,197	\$5,010,723	\$769,693	\$687,573	\$7,193,890	\$5,698,296

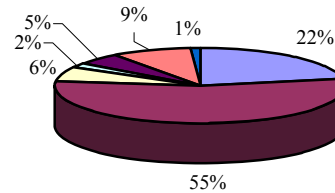
The Governmental Activities for the City had an increase in Charges for Services in 2006 as compared to 2005 mainly due to an increase in the amount of revenue received from garbage collections during 2006. The City saw an increase in income taxes revenue in 2006 as compared to 2005 due to the increase in the City's income tax rate from 1.5% to 2.0%. General Government expense increased mainly due to general inflationary costs. The Business-Type Activities saw a decrease in Charges for Services mainly due to a slight decrease in accounts receivable in 2006 as compared to 2005, while expenses decreased mainly due to a decrease in materials and supplies expense.

Governmental Activities

The 2.0% income tax is the largest source of revenue for the City. Revenues generated by the earnings tax represent more than 75% of the City's governmental activities general revenues.

Governmental activities program expenses for 2006 were as follows:

<u>Program Expenses</u>	<u>Percent of Total</u>
General Government	22%
Public Safety	55%
Leisure Time Activities	6%
Community Development	2%
Basic Utility Service	5%
Transportation and Street Repair	9%
Interest and Fiscal Charges	1%
Total	<u>100%</u>



General Government include legislative and executive as well as judicial expenses. Leaf and brush pickup, storm sewer projects, aggressive street resurfacing program, amenities in the parks, and police and fire services all culminate into a full service city.

Business-Type Activities

The City's business-type activity includes water. This program had operating revenues of \$1,379,872 and operating expenses of \$1,275,585 for fiscal year 2006. Business activities receive no support from tax revenues. The business activities net assets at the end of the year was \$769,693, which increased \$82,120 from 2005. The City had one business-type (enterprise) fund that was a major fund: the Water fund.

The City's Funds

The City has two major governmental funds: the General Fund and Capital Improvement Fund. Assets of the General fund comprised \$3,164,076 (52%), and the Capital Improvement fund comprised \$1,108,449 (18%) of the total \$6,043,697 governmental funds assets.

General Fund: Fund balance at December 31, 2006 was \$668,585 an increase in fund balance of \$314,889 from 2005. The general fund had an increase in fund balance mainly due to the increase in income taxes revenue.

Capital Improvement Fund: Fund balance at December 31, 2006 was \$586,078 an increase in fund balance of \$307,013. The capital improvement fund had a increase in fund balance mainly due to the amount of monies transferred in from the general fund.

General Fund Budgeting Highlights

The City's General Fund budget is formally adopted at the fund level. Financial reports, which compare actual performance with the budget, are prepared quarterly and presented to the Council so the Council is able to review the financial status and measure the effectiveness of the budgetary controls.

As the City completed the year, its General Fund balance reported an actual fund balance of \$442,225, on a Non-GAAP Budgetary Basis.

Variations from the final budget amounts to the actual amounts are primarily due to the following reasons: The City underestimated the taxes revenue amount and overestimated the general government and public safety expenditures for 2006.

Capital Assets and Debt Administration

Capital Assets

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$1,029,293	\$1,029,293	\$6,135	\$6,135	\$1,035,428	\$1,035,428
Construction in Progress	0	1,895,170	0	0	0	1,895,170
Buildings and Improvements	681,885	751,279	56,772	58,266	738,657	809,545
Equipment	713,494	741,208	35,441	50,687	748,935	791,895
Infrastructure*	2,103,778	0	686,501	696,501	2,790,279	696,501
Total Net Capital Assets	\$4,528,450	\$4,416,950	\$784,849	\$811,589	\$5,313,299	\$5,228,539

The increase in net capital assets was the result of the completion of the Reading Road Streetscape Project.

See Note 6 to the basic financial statements for further details on the City's capital assets.

* NOTE – The City of Reading qualifies as a Phase III government for purposes of implementing GASB 34. Phase III governments are required to recognize governmental activities infrastructure on a prospective basis starting January 1, 2004.

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Debt

At year-end the City had \$2,017,124 in general obligation bonds and notes and capital leases.

Table 4
Outstanding Debt at Year End

		<u>2006</u>	<u>2005</u>
Governmental Activities			
<u>Bonds Payable</u>			
2003 Various Purpose Bonds	1.40-5.00%	\$700,000	\$800,000
2003 Streetscape Bonds	4.59%	<u>850,000</u>	<u>900,000</u>
Subtotal Bonds Payable		1,550,000	1,700,000
<u>Capital Leases Payable</u>			
2003 Emergency Vehicles	2.90%	0	39,401
2003 Trucks	2.90%	0	22,808
2005 Dump Truck	7.31%	<u>42,082</u>	<u>61,780</u>
Subtotal Capital Leases Payable		42,082	123,989
Total Government Activities		<u>1,592,082</u>	<u>1,823,989</u>
Business Type Activities			
<u>Notes Payable</u>			
2001 Water System Improvements II	4.94%	274,000	324,000
1990 Water System Improvements I	5.27%	<u>125,000</u>	<u>150,000</u>
Subtotal Notes Payable		399,000	474,000
<u>Capital Lease Payable</u>			
2005 Plumbers Truck	7.31%	<u>26,042</u>	<u>38,232</u>
Total Business-Type Activities		<u>425,042</u>	<u>512,232</u>
Total Debt		<u>\$2,017,124</u>	<u>\$2,336,221</u>

See Note 8 to the basic financial statements for further details on the City's long-term obligations.

Economic Factors

The City is not immune to economic conditions that have negatively affected many public and private entities. Management has been committed to providing its residents with full disclosure of the financial position of the City.

Contacting the City's Financial Department

This financial report is designed to provide our citizens, taxpayers, customers and investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Auditor, City of Reading, 1000 Market Street, Reading, Ohio 45215.

City of Reading, Ohio
Statement of Net Assets
December 31, 2006

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$2,201,948	\$275,517	\$2,477,465
Receivables:			
Taxes	2,513,546	0	2,513,546
Accounts	176,209	240,430	416,639
Interest	12,050	0	12,050
Intergovernmental	575,984	0	575,984
Internal Balances	(69,755)	69,755	0
Land Held for Resale	450,000	0	450,000
Nondepreciable Capital Assets	1,029,293	6,135	1,035,428
Depreciable Capital Assets, Net	3,499,157	778,714	4,277,871
Total Assets	10,388,432	1,370,551	11,758,983
Liabilities:			
Accounts Payable	144,053	58,869	202,922
Accrued Wages and Benefits	366,550	13,275	379,825
Accrued Interest Payable	8,630	9,187	17,817
Unearned Revenue	669,042	0	669,042
General Obligation Notes Payable	450,000	0	450,000
Long-Term Liabilities:			
Due Within One Year	399,109	111,127	510,236
Due In More Than One Year	1,926,851	408,400	2,335,251
Total Liabilities	3,964,235	600,858	4,565,093
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,936,368	359,807	3,296,175
Restricted for:			
Special Revenue	965,275	0	965,275
Capital Projects	1,245,421	0	1,245,421
Unrestricted	1,277,133	409,886	1,687,019
Total Net Assets	\$6,424,197	\$769,693	\$7,193,890

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2006

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,830,621	\$711,587	\$0	\$0
Public Safety	4,552,986	315,179	4,500	0
Leisure Time Activities	543,424	72,322	0	0
Community Development	165,628	53,336	0	0
Basic Utility Service	393,831	0	0	0
Transportation and Street Repair	759,277	0	803,897	20,074
Public Health and Welfare	10,976	0	0	0
Interest and Fiscal Charges	78,197	0	0	0
Total Governmental Activities	8,334,940	1,152,424	808,397	20,074
Business-Type Activities:				
Water Utility	1,297,752	1,379,872	0	0
Totals	\$9,632,692	\$2,532,296	\$808,397	\$20,074

General Revenues:
Income Taxes
Property Taxes Levied for:
 General Purposes
 Capital Projects Purposes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Other Revenues

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$1,119,034)	\$0	(\$1,119,034)
(4,233,307)	0	(4,233,307)
(471,102)	0	(471,102)
(112,292)	0	(112,292)
(393,831)	0	(393,831)
64,694	0	64,694
(10,976)	0	(10,976)
(78,197)	0	(78,197)
<u>(6,354,045)</u>	<u>0</u>	<u>(6,354,045)</u>
0	82,120	82,120
(\$6,354,045)	\$82,120	(\$6,271,925)
5,867,828	0	5,867,828
574,740	0	574,740
345,170	0	345,170
618,883	0	618,883
131,187	0	131,187
229,711	0	229,711
<u>7,767,519</u>	<u>0</u>	<u>7,767,519</u>
1,413,474	82,120	1,495,594
<u>5,010,723</u>	<u>687,573</u>	<u>5,698,296</u>
<u>\$6,424,197</u>	<u>\$769,693</u>	<u>\$7,193,890</u>

City of Reading, Ohio
Balance Sheet
Governmental Funds
December 31, 2006

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$563,829	\$172,118	\$1,466,001	\$2,201,948
Receivables:				
Taxes	2,141,175	372,371	0	2,513,546
Accounts	152,157	0	24,052	176,209
Interest	12,050	0	0	12,050
Intergovernmental	294,865	0	281,119	575,984
Interfund	0	113,960	0	113,960
Land Held for Resale	0	450,000	0	450,000
Total Assets	3,164,076	1,108,449	1,771,172	6,043,697
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	85,000	0	59,053	144,053
Accrued Wages and Benefits	355,055	0	11,495	366,550
Interfund Payable	118,765	0	64,950	183,715
Deferred Revenue	1,636,671	372,371	237,401	2,246,443
General Obligation Notes Payable	300,000	150,000	0	450,000
Total Liabilities	2,495,491	522,371	372,899	3,390,761
Fund Balances:				
Reserved for Encumbrances	0	0	1,612	1,612
Reserved for Land Held for Resale	0	450,000	0	450,000
Unreserved, Undesignated, Reported in:				
General Fund	668,585	0	0	668,585
Special Revenue Funds	0	0	822,871	822,871
Debt Service Funds	0	0	(50,304)	(50,304)
Capital Projects Funds	0	136,078	624,094	760,172
Total Fund Balances	668,585	586,078	1,398,273	2,652,936
Total Liabilities and Fund Balances	\$3,164,076	\$1,108,449	\$1,771,172	\$6,043,697

See accompanying notes to the basic financial statements.

City of Reading, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 December 31, 2006

Total Governmental Fund Balance \$2,652,936

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 in the funds. 4,528,450

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds.

Income Taxes	1,083,214	
Delinquent Property Taxes	75,700	
Intergovernmental	<u>418,487</u>	
		1,577,401

In the statement of net assets interest payable is accrued when
 incurred, whereas in the governmental funds interest is
 reported as a liability only when it will require the use of
 current financial resources. (8,630)

Some liabilities reported in the statement of net assets do not
 require the use of current financial resources and therefore
 are not reported as liabilities in governmental funds.

Compensated Absences	<u>(733,878)</u>	
		(733,878)

Long-term liabilities, are not due and payable in the current
 period and therefore are not reported in the funds. (1,592,082)

Net Assets of Governmental Activities \$6,424,197

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2006

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$6,033,425	\$345,170	\$0	\$6,378,595
Fines, Licenses & Permits	296,543	0	28,633	325,176
Charges for Services	538,806	0	270,108	808,914
Investment Earnings	131,187	0	0	131,187
Intergovernmental	682,262	20,074	809,370	1,511,706
Other Revenues	215,081	0	4,781	219,862
Total Revenues	7,897,304	365,244	1,112,892	9,375,440
Expenditures:				
Current:				
General Government	1,749,202	0	0	1,749,202
Public Safety	4,314,971	0	85,593	4,400,564
Leisure Time Activities	437,215	0	1,856	439,071
Community Development	154,155	0	11,473	165,628
Basic Utility Service	393,831	0	0	393,831
Transportation and Street Repair	0	0	661,654	661,654
Public Health and Welfare	10,976	0	0	10,976
Capital Outlay	0	89,646	387,165	476,811
Debt Service:				
Principal Retirement	0	192,506	39,401	231,907
Interest and Fiscal Charges	0	76,079	859	76,938
Total Expenditures	7,060,350	358,231	1,188,001	8,606,582
Excess of Revenues Over (Under) Expenditures	836,954	7,013	(75,109)	768,858
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	20,065	0	0	20,065
Transfers In	0	300,000	242,130	542,130
Transfers (Out)	(542,130)	0	0	(542,130)
Total Other Financing Sources (Uses)	(522,065)	300,000	242,130	20,065
Net Change in Fund Balance	314,889	307,013	167,021	788,923
Fund Balance Beginning of Year	353,696	279,065	1,231,252	1,864,013
Fund Balance End of Year	\$668,585	\$586,078	\$1,398,273	\$2,652,936

See accompanying notes to the basic financial statements.

City of Reading, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2006

Net Change in Fund Balance - Total Governmental Funds \$788,923

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

Governmental funds report capital asset additions 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 of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	423,416		
Depreciation Expense	<u>(301,700)</u>		121,716

Governmental funds only report the disposal of assets to the
 extent proceeds are received from the sale. In the statement
 of activities, a gain or loss is reported for each disposal. The
 amount of the proceeds must be removed and the gain or loss
 on the disposal of capital assets must be recognized. This is the
 amount of the difference between the proceeds and the gain or loss. (10,216)

Revenues in the statement of activities that do not provide
 current financial resources are not reported as revenues in
 the funds.

Income Taxes	427,014		
Delinquent Property Taxes	(17,798)		
Intergovernmental	<u>(46,091)</u>		363,125

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 231,907

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. (1,259)

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Compensated Absences	<u>(80,722)</u>		
			<u>(80,722)</u>

Change in Net Assets of Governmental Activities \$1,413,474

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Net Assets
Proprietary Fund
December 31, 2006

	<u>Water</u>
Assets:	
Equity in Pooled Cash and Investments	\$275,517
Receivables:	
Accounts	240,430
Interfund	<u>69,755</u>
Total Current Assets	<u>585,702</u>
Nondepreciable Capital Assets	6,135
Depreciable Capital Assets, Net	<u>778,714</u>
Total Assets	<u>1,370,551</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	58,869
Accrued Wages and Benefits	13,275
Compensated Absences	21,391
Accrued Interest Payable	9,187
Long-Term Liabilities Due Within One Year	<u>89,736</u>
Total Current Liabilities	<u>192,458</u>
Long-Term Liabilities:	
Compensated Absences	73,094
Bonds, Notes & Loans Payable	322,000
Capital Leases Payable	<u>13,306</u>
Total Liabilities	<u>600,858</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	359,807
Unrestricted	<u>409,886</u>
Total Net Assets	<u>\$769,693</u>

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended December 31, 2006

	<u>Water</u>
Operating Revenues:	
Charges for Services	<u>\$1,379,872</u>
Total Operating Revenues	<u>1,379,872</u>
Operating Expenses:	
Personal Services	354,686
Materials and Supplies	892,252
Depreciation	<u>28,647</u>
Total Operating Expenses	<u>1,275,585</u>
Operating Income (Loss)	<u>104,287</u>
Non-Operating Revenues (Expenses):	
Interest (Expense)	<u>(22,167)</u>
Total Non-Operating Revenues (Expenses)	<u>(22,167)</u>
Change in Net Assets	82,120
Net Assets Beginning of Year	<u>687,573</u>
Net Assets End of Year	<u>\$769,693</u>

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended December 31, 2006

	<u>Water</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$1,406,839
Cash Payments to Employees	(350,604)
Cash Payments to Suppliers	<u>(898,570)</u>
Net Cash Provided (Used) by Operating Activities	<u>157,665</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(1,907)
Debt Principal Payments	(87,190)
Debt Interest Payments	<u>(22,762)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(111,859)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	45,806
Cash and Cash Equivalents Beginning of Year	<u>229,711</u>
Cash and Cash Equivalents End of Year	<u>275,517</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	104,287
Adjustments:	
Depreciation	28,647
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	26,967
Increase (Decrease) in Payables	(6,318)
Increase (Decrease) in Accrued Liabilities	<u>4,082</u>
Net Cash Provided (Used) by Operating Activities	<u>\$157,665</u>

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Fiduciary Net Assets
Fiduciary Fund
December 31, 2006

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$370,242
Receivables:	
Accounts	<u>321,449</u>
Total Assets	<u>\$691,691</u>
Liabilities:	
Accounts Payable	260,400
O t h e r L i a b i l i t i e s	<u>431,291</u>
Total Liabilities	<u>\$691,691</u>

See accompanying notes to the basic financial statements.

City of Reading, Ohio

Notes to the Basic Financial Statements
For The Year Ended December 31, 2006

1. DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Reading, Ohio (the “City”) operates under a seven member council. An elected City Auditor is responsible for fiscal control of the City’s resources. Services provided by the City include public service, public safety, recreation and development.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. The City operates under a seven-member council. An elected City Auditor is responsible for fiscal control of the resources of the City. Services provided by the City include public services, public safety, recreation, and development.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. For proprietary funds the City has elected not to follow subsequent private-sector guidance. The most significant of the City’s accounting policies are described below.

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City and/or the general laws of Ohio.

Capital Improvement Capital Projects Fund – This capital projects fund accounts for financial resources used for various capital improvements for the City.

The other governmental funds of the City account for grants and other resources that are generally restricted to use for a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have an internal service fund.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise fund:

Water Fund - This fund accounts for provision of water treatment and distribution to the residents and commercial users of the water system.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: agency funds, pension trust funds, investment trust funds and private-purpose trust funds. The City has three Agency funds. The Sewer Disposal Trust fund accounts for money collected for sewer services to be paid to the Metropolitan Sewer District for services provided. The City also has a Warranty Bond Agency Fund (to account for warranty bonds collected). The City also has a Mayor's Court Agency fund (to account for amounts held on behalf of other governments and bonds deposited with the court pending final disposition of various causes). Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City currently has no trust funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants and fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of the current year-end, but which were levied to finance future operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met because such amounts have not yet been earned.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Equity in Pooled Cash and Investments

To improve cash management the City's cash and investments are pooled. Monies for all funds, except cash and investments held in segregated accounts, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet.

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

Following the Ohio Revised Code, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues during 2006 amounted to \$131,187 in the General Fund.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective proprietary funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The City uses a \$100 capitalization threshold.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15-40 years
Equipment	5-20 years
Infrastructure	50 years

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. Compensated absences are reported in governmental funds only if they have matured. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances are recorded as a reservation of fund balance.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the City's \$2,210,696 in restricted net assets, none were restricted by enabling legislation.

Operating Revenues and Expenses

The City, in its proprietary funds, distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated through the process of consolidation.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. EQUITY IN POOLED CASH AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the City into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the City. Such monies must by law be maintained either as cash in the City treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of December 31, 2006, \$2,851,687 of the City's bank balance of \$3,051,687 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

At year end the City held no investments.

4. RECEIVABLES

Receivables at year end, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, accrued interest on investments, accounts and loans receivable.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007 operations.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing machinery and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

The assessed values of real and tangible personal property upon which current year property tax receipts were based are as follows:

Real Property	\$138,979,480
Public Utility	7,202,920
Tangible Personal Property	<u>51,153,000</u>
Total Valuation	<u>\$197,335,400</u>

Real property taxes are payable annually or semi-annually. The first payment is due January 20 with the remainder payable by June 20.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of year end for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at year end, nor were they levied to finance current year operations. The receivable is therefore offset by deferred revenue.

Income Taxes

The City levies a two percent income tax on wages, salaries, commissions and other compensation in addition to net profits of business activity. The tax applies to all income earned within the City plus income earned by residents who earned income outside the City. A credit up to two percent is allowed if an individual pays income taxes to another municipality.

Additional increases in the income tax rate require voter approval.

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly based on an annual declaration and file an annual tax return.

5. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial general liability insurance against these risks and all other risks of loss, including workers' compensation and employee health and accident insurance.

There have been no significant reductions in insurance coverage from that of prior years and settlements have not exceeded insurance coverage for any of the past three fiscal years.

6. CAPITAL ASSETS

Capital asset activity for the current year end was as follows:

	Beginning Balance**	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$1,029,293	\$0	\$0	\$1,029,293
Construction in Progress	1,895,170	208,608	2,103,778	0
Total Capital Assets, not being depreciated	<u>2,924,463</u>	<u>208,608</u>	<u>2,103,778</u>	<u>1,029,293</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	1,653,022	0	11,601	1,641,421
Equipment	3,074,138	214,808	172,409	3,116,537
Infrastructure*	0	2,103,778	0	2,103,778
Total Capital Assets, being depreciated	<u>4,727,160</u>	<u>2,318,586</u>	<u>184,010</u>	<u>6,861,736</u>
Totals at Historical Cost	<u>7,651,623</u>	<u>2,527,194</u>	<u>2,287,788</u>	<u>7,891,029</u>
Less Accumulated Depreciation:				
Buildings and Improvements	893,140	76,547	10,151	959,536
Equipment	2,341,533	225,153	163,643	2,403,043
Infrastructure	0	0	0	0
Total Accumulated Depreciation	<u>3,234,673</u>	<u>301,700</u>	<u>173,794</u>	<u>3,362,579</u>
Governmental Activities Capital Assets, Net	<u>\$4,416,950</u>	<u>\$2,225,494</u>	<u>\$2,113,994</u>	<u>\$4,528,450</u>
Business-Type Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$6,135	\$0	\$0	\$6,135
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	106,609	0	0	106,609
Equipment	123,716	1,907	0	125,623
Infrastructure	1,489,820	0	0	1,489,820
Total Capital Assets, being depreciated	<u>1,720,145</u>	<u>1,907</u>	<u>0</u>	<u>1,722,052</u>
Totals at Historical Cost	<u>1,726,280</u>	<u>1,907</u>	<u>0</u>	<u>1,728,187</u>
Less Accumulated Depreciation:				
Buildings and Improvements	48,343	1,494	0	49,837
Equipment	73,029	17,153	0	90,182
Infrastructure	793,319	10,000	0	803,319
Total Accumulated Depreciation	<u>914,691</u>	<u>28,647</u>	<u>0</u>	<u>943,338</u>
Business-Type Activities Capital Assets, Net	<u>\$811,589</u>	<u>(\$26,740)</u>	<u>\$0</u>	<u>\$784,849</u>

* NOTE – The City of Reading qualifies as a Phase III government for purposes of implementing GASB 34. Phase III governments are required to recognize governmental activities infrastructure on a prospective basis starting January 1, 2004.

** Reclassification made between capital asset classifications.

Depreciation expense was charged to governmental functions as follows:

General Government	\$66,720
Public Safety	135,904
Leisure Time	69,435
Transportation	29,641
Total Depreciation Expense	<u><u>\$301,700</u></u>

7. NOTES PAYABLE

A summary of the note transactions for the current year end are as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
General Fund:				
5.30% Real Estate Acquisition Note	\$0	\$300,000	\$0	\$300,000
Capital Improvement Fund:				
5.30% Real Estate Acquisition Note	<u>0</u>	<u>150,000</u>	<u>0</u>	<u>150,000</u>
Total	<u><u>\$0</u></u>	<u><u>\$450,000</u></u>	<u><u>\$0</u></u>	<u><u>\$450,000</u></u>

8. LONG-TERM DEBT

A schedule of changes in bonds and other long-term obligations of the City during the current year, follows:

		<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
2003 Various Purpose Bonds	1.40-5.00%	\$800,000	\$0	(\$100,000)	\$700,000	\$100,000
2003 Streetscape Bonds	4.59%	900,000	0	(50,000)	850,000	50,000
Total General Obligation Bonds		<u>1,700,000</u>	<u>0</u>	<u>(150,000)</u>	<u>1,550,000</u>	<u>150,000</u>
Capital Lease		<u>123,989</u>	<u>0</u>	<u>(81,907)</u>	<u>42,082</u>	<u>20,580</u>
Total Long-Term Liabilities Bonds and Leases		1,823,989	0	(231,907)	1,592,082	170,580
Compensated Absences		<u>653,156</u>	<u>294,636</u>	<u>(213,914)</u>	<u>733,878</u>	<u>228,529</u>
Total Governmental Activities		<u><u>\$2,477,145</u></u>	<u><u>\$294,636</u></u>	<u><u>(\$445,821)</u></u>	<u><u>\$2,325,960</u></u>	<u><u>\$399,109</u></u>

Business-Type Activities

<u>Bonds</u>						
2001 Water System Improvements II	4.94%	\$324,000	\$0	(\$50,000)	\$274,000	\$52,000
1990 Water System Improvements I	5.27%	150,000	0	(25,000)	125,000	25,000
Total Bonds		<u>474,000</u>	<u>0</u>	<u>(75,000)</u>	<u>399,000</u>	<u>77,000</u>
Capital Lease		<u>38,232</u>	<u>0</u>	<u>(12,190)</u>	<u>26,042</u>	<u>12,736</u>
Total Long-Term Liabilities Bonds and Leases		512,232	0	(87,190)	425,042	89,736
Compensated Absences		<u>88,839</u>	<u>25,278</u>	<u>(19,632)</u>	<u>94,485</u>	<u>21,391</u>
Total Business-Type Activities		<u>\$601,071</u>	<u>\$25,278</u>	<u>(\$106,822)</u>	<u>\$519,527</u>	<u>\$111,127</u>

Compensated Absences will be paid from the fund from which the person is paid. Historically, this is the General Fund or a Special Revenue Fund.

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$227,000	\$87,354 *
2008	230,000	78,398 *
2009	233,000	68,795 *
2010	236,000	58,791 *
2011	223,000	47,487 *
2012-2016	450,000	124,750 *
2017-2021	250,000	57,375 *
2022-2023	100,000	6,885 *
Total	<u>\$1,949,000</u>	<u>\$529,835</u>

*On March 23, 2007, the rate for the water system improvements I will be readjusted to the then the current rate of interest on five year treasury investments plus 20 basis points.

9. LEASES

The City has entered into capital leases for vehicles.

The lease for the vehicles meet the criteria of capital lease as defined by statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments for the vehicles will be made from the Capital Projects Fund and the Water Fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

Fiscal Year Ending June 30,	Long-Term Debt
2007	\$35,969
2008	<u>35,969</u>
Total Minimum Lease Payments	71,938
Less: Amount Representing Interest	<u>(3,814)</u>
Present Value of Minimum Lease Payments	<u>\$68,124</u>

Capital assets acquired under capital leases in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

Vehicles	\$281,392
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10. PENSION PLANS

Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6701 or (800) 222-7377, or by visiting the OPERS website at www.opers.org.

Members have a choice of three separate pension plans, a Traditional Pension Plan (TP), a Member-Directed Plan (MD) and a Combined Plan (CO). The TP Plan is a cost-sharing multiple-employer defined benefit pension plan. The MD Plan is a defined contribution plan in which member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustment to members of the TP and CO Plans. Members of the MD Plan do not qualify for the ancillary benefits, including post-employment healthcare coverage.

Plan members are required to contribute 9.0 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City is 13.7 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2006, 2005 and 2004 were \$259,200, \$257,410, and \$227,397, respectively. The full amount has been contributed for 2005 and 2004 and 76 percent has been contributed for 2006.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215 - 5164, or by calling (614) 228-2975, or by visiting the OP&F website at www.op-f.org.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for the years ending December 31, 2006, 2005 and 2004 were \$635,220, \$599,970, and \$451,093, respectively. The full amount has been contributed for 2005 and 2004 and 80 percent has been contributed for 2006.

11. POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The current year employer contribution rate was 13.70 percent of covered payroll; 4.50 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rates plus an additional factor ranging from .50 percent to 6 percent for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At year end 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The City's actual contributions for the current year, which were used to fund postemployment benefits were \$85,139. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during the current year. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for the current year that were used to fund postemployment benefits were \$151,952 for police and \$81,662 for fire. The OP&F's total health care expenses for the year ended December 31, 2005, (the latest information available) were \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

12. CONTINGENCIES

The City is a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

13. INTERFUND TRANSACTIONS

Interfund transactions at year end, consisted of the following individual interfund receivable, interfund payable, transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$0	\$118,765	\$0	\$542,130
Capital Improvement Fund	113,960	0	300,000	0
Other Governmental Funds	0	64,950	242,130	0
Water Fund	69,755	0	0	0
Total	<u>\$183,715</u>	<u>\$183,715</u>	<u>\$542,130</u>	<u>\$542,130</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

14. COMPLIANCE AND ACCOUNTABILITY

Accountability

At year end, the City had a deficit fund balance in the following funds: General Sinking Fund and Police and Fire Communications. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

15. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

REQUIRED SUPPLEMENTARY INFORMATION

City of Reading, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2006

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$4,954,664	\$5,458,406	\$5,811,478	\$353,072
Fines, Licenses & Permits	249,316	274,665	292,431	17,766
Intergovernmental	667,853	735,753	783,345	47,592
Charges for Services	449,064	494,720	526,721	32,001
Investment Earnings	107,856	118,822	126,508	7,686
Other Revenues	183,371	202,014	215,081	13,067
Total Revenues	6,612,124	7,284,380	7,755,564	471,184
Expenditures:				
Current:				
General Government	1,887,674	2,257,556	2,093,003	164,553
Public Safety	3,912,335	4,678,941	4,337,894	341,047
Leisure Time Activities	405,568	485,037	449,683	35,354
Community Development	142,650	170,602	158,167	12,435
Basic Utility Service	470,347	562,509	521,508	41,001
Public Health and Welfare	9,899	11,839	10,976	863
Total Expenditures	6,828,473	8,166,484	7,571,231	595,253
Excess of Revenues Over (Under) Expenditures	(216,349)	(882,104)	184,333	1,066,437
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	17,107	18,846	20,065	1,219
Issuance of Short-Term Notes	255,770	281,774	300,000	18,226
Transfers (Out)	(218,376)	(261,166)	(242,130)	19,036
Total Other Financing Sources (Uses)	54,501	39,454	77,935	38,481
Net Change in Fund Balance	(161,848)	(842,650)	262,268	1,104,918
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	179,957	179,957	179,957	0
Fund Balance End of Year	\$18,109	(\$662,693)	\$442,225	\$1,104,918

See accompanying notes to the required supplementary information.

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the year.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$314,889
Net Adjustment for Revenue Accruals	(141,740)
Net Adjustment for Expenditure Accruals	(496,048)
Other Sources	600,000
Encumbrances	<u>(14,833)</u>
Budget Basis	<u>\$262,268</u>



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**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***

To the Honorable Mayor and Members of the City Council
City of Reading, Ohio:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Reading, Ohio (City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 23, 2008. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated June 23, 2008.

This report is intended solely for the information and use of management, others within the entity, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
June 23, 2008



Mary Taylor, CPA
Auditor of State

CITY OF READING

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 28, 2008**